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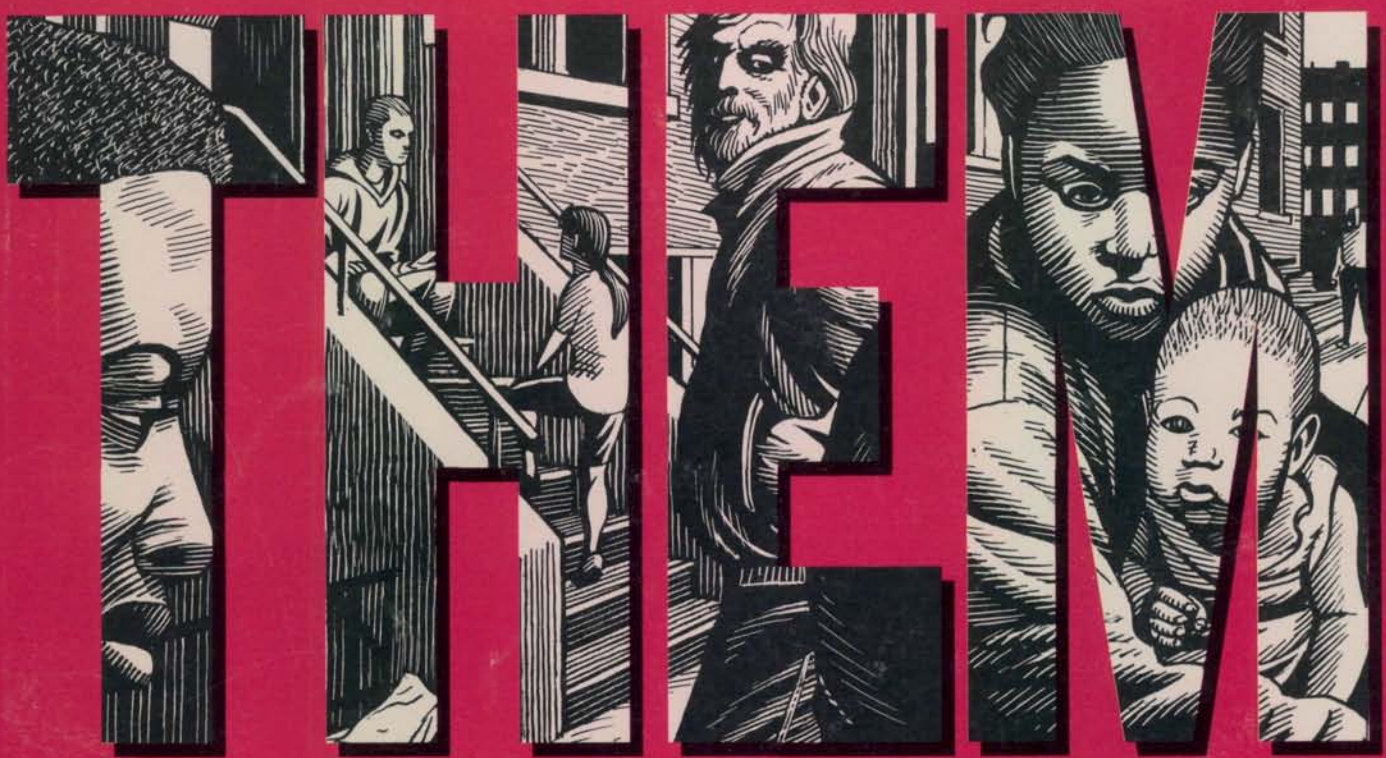
A JOURNAL FOR THE LIBERAL IMAGINATION



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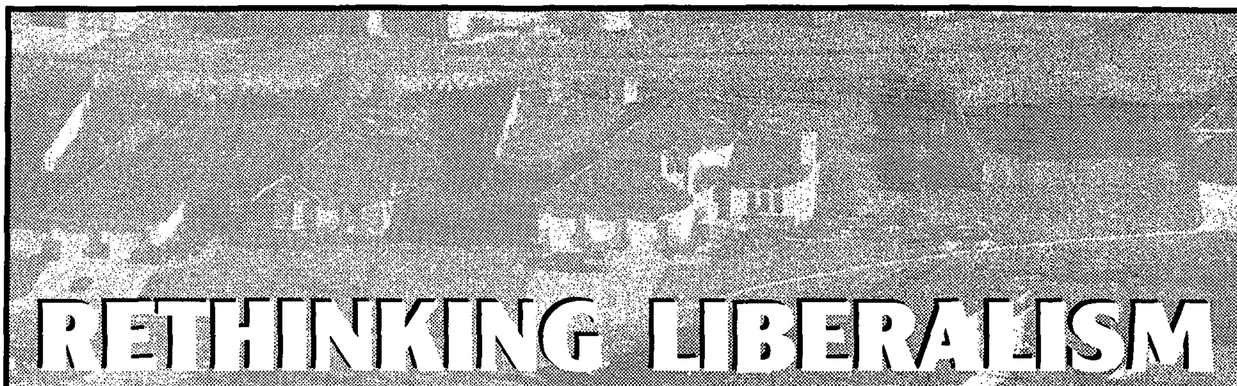

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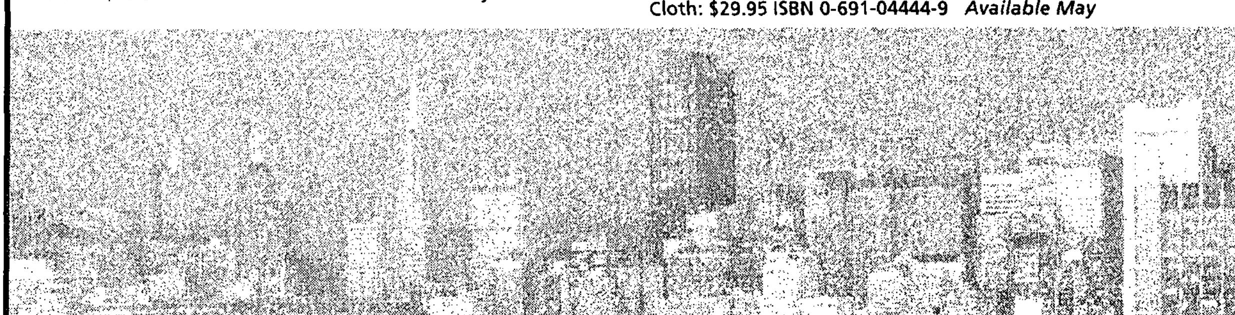

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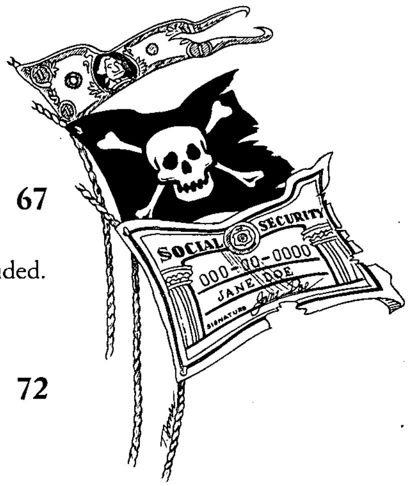
DEPARTMENTS

FEATURES

SPECIAL REPORT: THE PRIVATEERS



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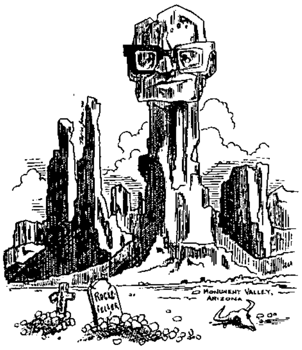

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EDITORS' NOTE

What do we owe to each other? What do the prosperous owe to the poor? In this issue's cover story, James Morone argues that the "morality project" of the right has an insidious effect on the tenor of public life in America, turning a virtuous "we" against an irresponsible "them" and undermining any sense of mutual obligation. Also in this issue, three articles on "The Privateers," along with a leader by my coeditor, Robert Kuttner, raise concerns about the effects of privatization on the moral economy of Social Security, Blue Cross, and the public schools. And David Ellwood tells a cautionary tale about what happened to welfare reform (in which some might find parallels to another story, as I told it in "What Happened to Health Reform," *TAP*, Winter 1995).

But there is some good news here, too. Judith Bell's article on Blue Cross recounts a major success of consumer groups in California in rescuing the assets of the state's Blue Cross plan. Barry Bluestone and Teresa Ghilarducci set out a convincing, politically feasible antipoverty strategy based on the earned income tax credit and a higher minimum wage. As we go to press, support for a minimum-wage increase is growing among opinion leaders and in the Congress. This turnabout wouldn't have happened without wider recognition of a decline in the real wages of the poor—and wider acceptance of a national obligation to do something about it.

The better angels of the American soul are still there. They just need some inspiration.

—*Paul Starr*

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Illustrations: Paul Anderson (23, 41), **Bob Dahm** (68), **Taylor Jones** (55, 60, 67, 72, 91), **Dan Krovatin** (31, 33).

ROBERT KUTTNER

After Solidarity

The American Republic has long had a set of public and nonprofit institutions that enrich our democracy by demonstrating that society is more than a mere market. The most expansive and explicit of these began in the New Deal, such as Social Security and later Medicare. However, public and communal institutions have a venerable history as old as the Massachusetts common schools of the 1660s. The nineteenth century saw a flowering of nonprofit, communal self-help organizations—charity hospitals, credit unions, workingmen's building and loan associations, fraternal and ethnic mutual aid organizations, trade unions, settlement houses, YMCAs, farm bureaus, and the like. In this century, the nonprofit sector added major new organizations such as Blue Cross and Blue Shield, community colleges, and so on.

To understand these institutions merely as "providing services" is to understand them far too narrowly, for they play a crucial civic and political role. By defining affiliation on the basis of membership and need rather than individual purchasing power, these solidarity institutions not only cushion people from the unsentimental and often devastating verdicts of pure markets. They enrich the meaning of citizenship, broaden the fabric of community, and strengthen an ethic of service and stewardship—a countervailing logic to the logic of markets. They are part of the nation's accumulated stock of social capital.

They also help anchor modern liberalism, both as public philosophy and as politics—perhaps more than many liberals appreciate. Politically, solidarity institutions provide important institutional and ideological ballast that helps stabilize politics on a center course against periodic riptides to starboard. Ordinary people tend to value these institutions. Thus, when zealous conservatives, or faithless liberals, are tempted to sacrifice, say, Medicare on the altar of budget balance or the fashion of privatization, they run into the inconvenient political fact that voters prize Medicare. The citizenry has grasped that Medicare, with its universal membership and free choice of doctor and hospital, beats anything the private market has on offer. Likewise, when Ronald Reagan's theorists of privatization set their sights on the most costly and redistributive public program of them all, they were quickly advised that Social Security was politically untouchable.

These institutions have deep roots and strong affiliations. Notwithstanding temporary political enthusiasms and majorities, they resist quick dismantling. Thus, though we are well into the second decade of conservative ideological hegemony, the legacy of solidarity institutions has prevented conservative ascendance from turning into a complete rout. That is, until now.

After a long lag, the forces of marketization now possess both the ideological self-confidence and the institutional leverage to seriously challenge extra-market organizations once thought impregnable. And, sadly, they are often joined in this endeavor by many well-meaning liberals who are confused both about politics and first principles.

Free-market conservatives are mounting this assault in the name of the market's two favorite appeals—efficiency and choice. Supposedly, greater privatization of public schools, health plans, retirement systems—whatever—will allow them to be run in a more cost-effective, businesslike fashion. Privatization also promises greater individual choice and thus the superior accountability of the marketplace. Solidarity is out, market is in. A citizen is nothing but a consumer.

In the case of Social Security, privatizers offer the promise of greater solvency and higher returns. It's the nineties: retirees should stop thinking like pensioners and start thinking like investors. By putting some of their Social Security nest egg into stocks and bonds of their own choosing, like free consenting adults, instead of having their funds managed (and guaranteed) by the Nanny State, they can experience the joys, yields, risks, and occasional surprises of the money markets.

Marketization of nonprofit institutions, likewise, is touted as promising greater efficiency, modernization, and choice. Nonprofit hospitals are said to be poorly managed, undercapitalized, and stuck

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with excess capacity. Just as a no-nonsense corporate raider moves to shape up or shut down wasting assets in the steel or airline industry, entrepreneurs are quickly buying up nonprofit hospitals and health plans. This is the market's road to rationalization of the health care sector, with its overbuilt and underfilled beds, its chronic inflation and administrative cobwebs. There is, of course, also a downside. The market is famous for jettisoning cost-centers—like sick people.

Yet many liberals find this crusade seductive. The market is dynamic, efficient, and modern. The state is archaic, bureaucratic, and unfashionable. Why shouldn't institutions like schools, health plans, and pension systems be run more like businesses? The modern neoliberal, to demonstrate his hipness, gamely rolls his eyes at the hopelessness of public school bureaucrats, the self-serving backwardness of teachers unions. Liberals can play this game. We can privatize just as well as the conservatives.

This issue of *The American Prospect* includes four articles that describe the assault of the privateers on nonprofit and public institutions. The story they tell is both instructive and depressing. In many respects, what remains of the solidarity sector is ripe for the picking. Almost by definition, this sector takes on society's hard cases. If easy money were to be made, public education in central Harlem or the care of the infirm elderly would have found an entrepreneurial solution long ago. As resources are diverted and prove inadequate to difficult social problems, institutions start looking threadbare and unattractive. Those on the front lines feel depleted and unappreciated—and the market beckons. The champions of the social sector have not done a good enough job at defending the rationale for its existence, or appreciating its political role. Administratively, some of this sector is almost as archaic as its critics allege. And some of its stewards are all too eager to cash it in.

On the other hand, in some cases privatization is more formidable a task than the privateers imagine. As Peter Schrag recounts in his article on public school privatization ("'F' is for Fizzle," page 67), the first wave of for-profit education entrepreneurs mostly failed. For one thing, they failed arithmetic. If one is serious about educating children, much less inner-city children or special-needs children,

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there is no magic pedagogic bullet, no gross inefficiency to be squeezed out by more businesslike managers, no quick buck.

After conceding defeat in an ambitious first-wave assault that overpromised both to communities and investors, the school privateers are now settling for more modest incursions—offering to manage schools and school systems rather than take them over. But this is only a tactical retreat. These people and this fashion are not going away. As long as conservatives are intellectually ascendant and schools are imperfect and costly, vouchers, charter schools, and other instruments of fragmentation will have wide appeal to many legislators and parent-taxpayers.

As a solidarity institution, the common school is already badly fragmented. Citizens in a well-to-do suburb may still cherish their local school system, but they feel little fiscal affinity with the bottomless pit of social need in the inner city. The effort to equalize school funding, much less to increase resources, has mostly stalled. Given fiscal scarcity, to the extent that budget equalization succeeds in bringing poor district spending more nearly in line with that of rich districts, it proceeds by what educators call "leveling down" rather than "leveling up." And the more that school funding is curtailed by fiscal stresses and federal cuts, the more affluent parents desert to private schools.

As a remedy, vouchers and privatization would only accelerate the fragmentation. Instead, public school systems need to show that they can be as nimble, innovative, decentralized, and accountable as their entrepreneurial suitors. Charter schools do stimulate innovation. Within limits they are fine, as long as they don't divert resources from the main public system or turn out to be the entering wedge of vouchers or for-profit privatization. But perhaps they are unnecessary. In a number of cases, such as the widely acclaimed Central Park East School in East Harlem, a pure public school led by a gifted educator has shown that it can trump the privatizers.

Deborah Meyer, principal of that institution, begins her recent memoir, *The Power of Their Ideas*, with a chapter titled "In Defense of Public Education." She writes, "Schools dependent on private clienteles—schools that can get rid of unwanted kids or troublemaker families, exclude on the basis of this or that set of beliefs, and toss aside the 'losers'—not only avoid the democratic arts of compromise and tolerance but also implicitly foster lessons about the power of money and privilege, a lesson already only too well known by every adolescent in America." Public schools, she adds, "offer opportunities for a sense of community otherwise sorely missing, for putting faces and names to people we might otherwise see as mere statistics or categories. . . . [D]emocratic 'conversation' is often loud and rude, and sometimes leaves scars and neighborly hostility. But if democracy survives such hostility it's because we assume we're members of a common club, stuck with each other. Public schools can train us for such political conversation across divisions of race, class religion and ideology."

There is, in short, more than one brand of motivation. If we can just resist the temptation to strip public and community institutions of assets and turn the whole mess over to entrepreneurs, the motivation of squeezing out more money for the shareholders is no match for the motivation of a dedicated classroom teacher or devoted principal. The market has no monopoly on efficiency, motivation, or choice—that is as long as we don't put nonmarket institutions out of business as role models.

In health care, meanwhile, runaway privatization is here. Columbia-HCA, a for-profit hospital chain that did not exist a decade ago, has bought upwards of 350 hospitals, often converting nonprofit and charity hospitals. Its latest target is Blue Cross and Blue Shield of Ohio. It has also taken over several Catholic charity hospitals, appropriating the capitalized value of the below-market labor of nuns and lay Catholics motivated by a religious mission.

The conversion of nonprofits to for-profits is a barely appreciated form of privatization with far-reaching consequences. Well-established common law holds that the trustees of a charity may not appropriate charitable assets for personal gain. But those bent on acquiring or converting nonprofit hospitals, health plans, or HMOs are able to circumvent that requirement by setting up a charitable foundation and buying the assets of the existing nonprofit for cash. The entrepreneur then makes off with the enterprise, often at a bargain-basement price. The foundation, often with an ill-defined purpose or governing structure, gets the money.

As Judith Bell's article on the conversion of California Blue Cross shows, the best outcome in

the current climate occurs when consumer groups are able to prevent wholesale looting of the nonprofit's assets (as has occurred in many other conversions) via sales at below-market prices. But what is the fair market value of a nonprofit? What is the long-term cost to the community when it ceases to exist as a nonprofit? In the California case, consumer advocates were able to negotiate a high price and a foundation able to pay for a good deal of health care for the poor. Still, the larger public issues of whether nonprofits should be on the auction block at all, of who supervises the successor foundation, of what residual obligation the new for-profit owes the community, have not been joined. Nor does the nation have a coherent set of ground rules to govern when and how such conversions should be allowed.

Blue Cross began in the Great Depression as an institution whose express purpose was to make sure that hospitals got paid. But it soon matured into an institution with broader social purposes. In its heyday, it "community rated" the cost of its insurance. That is, it charged a common rate to high-risk and low-risk individuals and groups—as social insurance logically must do. Blue Cross, like community hospitals, had something of a social conscience. It took care of a disproportionate share of expensive cases. But as Blue Cross has come under increasing competitive pressure from profit-motivated health plans, it has begun behaving more like them, seeking to avoid the risk of insuring sick people, or charging them more for their insurance.

The sad fact is that, in an era of rampant marketization, there is less and less distinctive about Blue Cross to save. One recalls Orwell's *Animal Farm*, where, after a while, the pigs and the humans looked pretty much alike. There is a similar cost-cutting race to the bottom in the case of HMOs and hospitals, where a contagion of risk aversion and cost cutting, rather than service, has spread from the for-profits to the nominal nonprofits. "Saving" a nonprofit institution, if it is far down this road, is a Pyhrric victory.

As these pressures intensify and as helping institutions become explicitly or implicitly profit-maximizing institutions, there are costs far beyond the cost of sick people not getting care. Society is being systematically denuded of habitats that nurture an ethic of service rather than profit. These institutions took decades—sometimes centuries—to build, and they will not easily be replaced.

We should think twice before accepting the claim that for-profit necessarily equals more efficient. It was not old-fashioned savings and loans, which were nonprofit mutuals owned by their depositors, that turned speculative and cost the taxpayers hundreds of billions of dollars. That debacle occurred after most S & L's converted to profit-making institutions. Credit unions, which are still nonprofits owned by their members, have not cost taxpayers a dime. Home health care was long a charitable service of visiting nurses and nurses' aides. Recently it has been expanded, by policymakers looking to combine better service and lower cost for infirm people who can be kept out of expensive and dispiriting institutions. But, in keeping with the fashion, the entrepreneurs have moved in. In New York state, where the business of home care has become a lucrative profit center for private businesses, the hourly cost billed to Medicaid has climbed to nearly a hundred dollars an hour, of which the nurse's aide gets less than $10. Nonprofits do the job more ethically and efficiently.

The crown jewel of this story is, of course, Social Security. Here, privatization managed to sneak up on us. In the budget negotiations, both parties pledged to leave Social Security alone. But as economists Joseph Quinn and Olivia Mitchell ["Social Security on the Table," page 76] and investigative reporter Robert Dreyfuss ["The Biggest Deal," page 72] explain, a narrow majority of an official advisory commission

supports one of two plans for partial privatization. Defenders of the existing system, led by Robert Ball, got 6 out of 13 votes for a plan to shore up Social Security's finances, allow some of its assets to be invested in the stock market, but retain it as an integrated, universal system.

By contrast, the other two plans, commanding seven votes between them, would divert some of the Social Security payroll tax to a new system of super-IRAs. This prospect has bankers and brokers fairly salivating, for it would mean literally trillions of dollars shifted from public management to private money managers. As Dreyfuss's article demonstrates, the policy debate has an unacknowledged undertow, courtesy of the lobbying of hungry money managers. The diversion of even a fraction of Social Security moneys to individual accounts is potentially insidious, since it would fragment what is America's most universal system. Over time, as the wealthiest bailed out, the constituency for the antipoverty aspect of Social Security would gradually erode. Privatization is advertised as a solution to the system's solvency problems, but the Ball plan would stabilize Social Security's finances, and without destroying the system in order to save it. This is merely an advisory commission, but privatization of Social Security promises to be the next great debate.

In 1981, *Conservative Digest* published a famous manifesto by Howard Phillips titled "Defunding the Left." Phillips (accurately) observed that certain social programs of the 1960s, like VISTA and Legal Services, allowed progressive lives and values to be lived at taxpayer expense. The right succeeded in dramatically reducing their funding. Today, the privateers' assault on solidarity aims at extirpating a much broader left—not the left of 1964 or even of 1933, but the left of 1789.

If we are to survive as more than a giant market, it is important both to broaden the language of choice and efficiency, and to recognize this challenge for what it is. If these assaults succeed, not only will American society fragment further—the result will be a kind of death spiral of the American commons. As the most affluent desert, and the poorest and least popular will get ever more meager leavings. And if solidarity institutions disappear, it will be far harder for liberals to catch the political wave when the public mood has inevitable second thoughts about its romance with markets.❑

QUANTITATIVELY CHALLENGED

In a March 28 editorial, the *Wall Street Journal* commented that "'Learning disabled' is one of those ephemeral but handy categories . . . particularly handy, it turns out, for well-heeled high schoolers hoping to score well on their college boards." The editorial referred to reports questioning whether the waiver of time limits on SAT exams for learning-disabled students was being abused.

Using figures from the Educational Testing Service, the *Journal* notes that the number of learning-disabled students taking the SAT has risen from 18,000 in 1991 to an estimated 30,000 this year. "To qualify as 'learning disabled,'" the writer says, "you need parents who will foot a $1,000 bill to get you the certificate."

Are rich kids really buying learning-disabled status to get more time to finish the test? Look again: Since the total number of students taking the SAT has gone up in the last five years, it's not surprising that more learning-disabled students are taking the test too. The supposedly dramatic numeral increase cited by the *Journal* translates to a percentage increase of just three-tenths of 1 percent.

The *Journal* should really retake its math boards. Here's the concept: When both the numerator and denominator of a fraction increase by roughly the same amount, this does not yield a big percentage change. And, hey, take all the time you need.

LOOK FOR THE UNION LIBEL

Americans for a Balanced Budget made headlines in late April when it released a poll purporting to show, as the group's president put it, that "Washington union officials are hopelessly out of touch with rank-and-file union members." But the actual results, obtained in a survey by conservative pollster Frank Luntz, tell a very different story.

When Luntz asked union members point-blank whether they were satisfied with national union leadership, 62 percent said yes. In fact, the majority of respondents said they had a more favorable opinion of their union than when they first joined (10 to 14 years ago, for the average respondent). Luntz's own summary of the findings, available only on request, conceded that "rank-and-file union membership generally approves of unions."

But those numbers didn't make it into the press release. Instead, ABB highlighted the fact that "only" 20 percent of the respondents have a "favorable" opinion of AFL-CIO President John Sweeney. That sounds dismal, but Sweeney's real problem is low name recognition–not high disapproval ratings. Of the 53 percent of respondents who had heard of Sweeney, fully *two-thirds* gave him a favorable rating. Republican presidential hopeful Bob Dole—99 percent name recognition, but a mere 33 percent approval rating—wishes he had it so good.

The poll was intended mainly to show that the rank and file opposed the use of union dues for negative advertising against Republicans. When posed that way, the question indeed elicited

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GLASS CONSCIOUSNESS

Washington Post columnist James K. Glassman recently put in a plug for bolstering the earned income tax credit (EITC), Washington's favorite antipoverty policy. Was the normally conservative Glassman stricken with a sudden bout of sympathy for the working poor? Hardly. He was just offering up the EITC as an alternative to raising the minimum wage, a program he finds even more odious. "What makes the current push so maddening," he complained, "is that the administration originally chose to back the EITC as an efficient alternative to the minimum wage."

Of course expanding the EITC instead of raising the minimum wage might be a more plausible argument if it wasn't Glassman making it. Last fall when Congressional Republicans put the program on the chopping block, Glassman penned a vituperative column attacking the EITC as "A Program Gone Bonkers." "At its core," he argued in defense of the GOP cuts, "the EITC is a massive transfer scheme."

Massive, no, transfer, yes. That's what programs like the EITC and minimum wage do—they transfer wealth from the rich to the poor. Glassman objects not because they don't work, but because they do.

—*Jonathan Chait*

JONATHAN COHN

The Fleece Police

It's Wednesday night on the *NBC Nightly News*—time for yet another installment of "The Fleecing of America," the weekly series on government waste. Tonight's episode stars a job training program in Puerto Rico, designed to move seasonal farm workers off welfare and into better-paying, permanent work. "Nothing wrong with that, right?" Tom Brokaw asks. "Well," he frowns, "in Puerto Rico it can be much more expensive than effective." Correspondent Robert Hager reports that much of the money earmarked for job training each year goes for teaching routine farm work: "chores most farm hands, even backyard gardeners, learn on their own—work so basic you'd hardly expect the U.S. government to spend *millions* training people to do it."

Sure enough, of the 1,125 workers who participated, only 37 got new, higher-paying jobs—and just 17 of them managed to keep those positions. That's $305,000 per job, Hager tells us, with a helpful graphic in case the point wasn't clear. A brief interview with government officials follows. "We think it's correctable," one says sheepishly. Then Hager cuts to the chase: "Labor now promises tighter controls plus an end to farm training for unskilled chores, but that's after it's own auditors said it was a waste—a $7 million fleecing—that put taxpayers out to pasture."

> Cheap indignation at the public sector's expense

Watching stories like these night after night, it's tempting to believe that Washington can do nothing right—that most government programs are just "good intentions gone wrong at a high cost to the taxpayer," to borrow Brokaw's phrase. But is America really getting fleeced? Let's go to the videotape—or, more precisely, the cutting-room floor. NBC didn't mention that the Puerto Rico program was part of a national program for training migrant workers. Getting people off welfare is inherently difficult, yet the General Accounting Office and the Rockefeller Foundation have cited other elements of this particular program as model welfare-to-work initiatives. The national program for migrant workers costs about $80 million—out of a roughly $1.5 trillion federal budget—and by most accounts all except the $7 million on Puerto Rico was well spent.

Hager's story omitted another crucial tidbit: Puerto Rico's unemployment rate is a staggering 13 percent, and it reaches 20 percent in the rural areas served by this training program. Much of the island's population is undereducated—the average migrant worker has a fifth-grade reading level—and at least some of the "misdirected" money was spent on basic literacy schooling. It seems a few local officials decided it was more worthwhile to teach workers how to read and write than to train them for jobs that weren't available anyway. That stretched the intent of the program, but would you really call it a fleecing?

One more subtlety that never came across in the story was the federal government's affirmative role in bringing the Puerto Rico situation to light. It was the Labor Department that first asked its inspector general to investigate the program's disappointing results three years ago, and, ironically enough, the ensuing critical report provided the grist for NBC's story. Hager did credit an "internal audit" as his source, but only the most attentive viewer would have made the connection. The segment's tone screamed bureaucratic ineptitude, not government fixing a problem.

Ironically, there was a good, hard-hitting story here, waiting to be told. At a time when

many officials (particularly at the Labor Department) have seized upon training as a panacea for unemployment and falling wages, the Puerto Rico story could have served as a case study in why job training is insufficient in the absence of broader economic action—or why training programs involving employer subsidies are prone to abuse without sufficient control from Washington. But NBC was not looking for an insightful look at the pitfalls of training or the perils of devolution; it just wanted cheap indignation at the public sector's expense. Says Kent Graham, producer of the "Fleecing" series, NBC prefers segments that are "80 percent fleece and 20 percent the other side."

This mentality—and the skewed coverage it inevitably fosters—is emblematic of a disturbing pattern. Certainly it is appropriate for media to expose government waste. But the relentless pursuit of even the most petty examples of excess frequently simplifies complicated policy issues while crowding out scrutiny of more worthy targets, particularly those in the private sector. You can't turn on a news show anymore without hearing about another $500 toilet seat, but good luck trying to find a story that reports the untaxed benefits top managers get from their companies. Is it any wonder liberals have such a hard time defending regulatory and social welfare programs?

The networks do portray government's positive side now and then. ABC's *World News Tonight* has its own series called "Your Money, Your Choice," that predates the NBC project by two years. Recently "Your Money" has profiled a few innovative government programs that actually saved money; correspondent John Martin has also filed the occasional story about an alleged example of government waste that turned out to be a worthy investment. "We try to be more descriptive than accusatory," Martin says.

Still, the vast majority of "Your Money" stories focus on government boondoggles. Martin recalls that when Paul Friedman, then the executive producer of *World News Tonight* (and now the vice president of ABC News), first pitched the idea, he had a very specific motif in mind: "Here's how they're wasting your money." Since then ABC has run some 150 reports, many of them dealing with programs that cost less than $50 million a year. Early on, ABC at least tried to offer viewers a sense of context by comparing the cost of wasteful programs to other items in the budget: Viewers got to see just what else the $18 million appropriated to build an Abraham Lincoln historical center could have bought in, say, expanded education funding or road construction. But that feature did not last long. The network deemed it too complicated for the viewers and too taxing on the research staff in New York.

While Martin concedes "we've had a couple [of segments] that were quite minor," he defends in principle the attention his network devotes to government waste: "It's two minutes a week . . . so I don't think that's an excessive amount in the grand scheme of things." But to measure the impact of these shows simply by summing their two-minute increments—and, to be precise, it's usually closer to three or four minutes per segment—ignores the context in which they appear. "Fleecing" and "Your Money" get great resources and play, with teasers on the morning shows and, occasionally, prime time. On the nightly news, dispatches from other correspondents reinforce the mentality that all government spending is wasteful, as do the weekly newsmagazine shows such as *Prime Time Live* with Sam Donaldson.

The unyielding scrutiny of government might be defensible were such scrutiny applied to the private sector as well. Yet business interests rarely receive such treatment, even though they have long been vulnerable to equal criticism for excess and wrongdoing. For instance, until Pat Buchanan's presidential bid caught fire early this year, the networks barely approached stories of corporate greed. An examination of the network news archives at Vanderbilt University shows that in all of 1995, NBC devoted a scant 15 minutes of coverage to downsizing-related stories, only a few of which did anything more than announce some layoffs and the impact on stock prices. The weekly "Fleecing" series, meanwhile, merited well over 103 minutes—and it didn't even kick off until May. It's not quite an analogous comparison, but it is suggestive of where the networks' priorities lie.

Perhaps more tellingly, the networks have conspicuously laid off aggressive consumer reporting and investigation—in no small part because they legitimately fear litigation by the targets of such muckraking. The instructive case here, of course, is the saga of tobacco coverage on ABC and CBS.

When ABC's *Day One* ran an story accusing the tobacco companies of spiking cigarettes with nicotine, Philip Morris slapped them with a lawsuit and ABC issued an apology—this, despite the fact that many legal experts concluded that ABC would have won its case. (Indeed, subsequent investigations have validated much of ABC's story.) That episode led CBS to pull its own story on tobacco, and it wasn't until print outlets ran their own tobacco stories this spring that the networks reengaged the debate. By then both ABC and CBS had completed their merger deals, creating the strong appearance that the programming decisions were based on a fear that pending lawsuits might jeopardize takeover negotiations.

Although print media are more likely to treat government programs with the complexity they deserve, most share the aversion to corporate muckraking. The tilt in who is targeted by today's muckrakers seems to have three broad causes. First, media conglomerates today think more like corporations and less like journalists. The once-sacred wall between newsroom and boardroom has been badly breached since the days of Murrow and Cronkite. (And we haven't even mentioned advertiser pressure.) Second, business generally enjoys prestige today, especially in the elite circles of which broadcasters are a part, while government is held in low repute. Network investigative reporters vindicate the prejudices of their colleagues when they savage government; they don't find much corporate malfeasance because they don't look for it.

But perhaps the most compelling and immediate reason for the imbalance in the reporting is an imbalance in the behavior of the targets. Business bites back, and government doesn't. Reporters who go after government waste are pressing on an open door, thanks to the Freedom of Information Act, General Accounting Office reports, and congressional investigations. They are rewarded with a no-heavy-lifting source of exposé and a happy boss. The story practically writes itself. By contrast, a reporter who goes after corporate corruption faces secrecy, long hours of thankless digging, threatened lawsuits, and nervous or hostile superiors. How much easier it is to attack the Labor Department.

No wonder TV makes government look terrible and corporate America seem rosy. Viewers looking for evenhanded investigations of public and private wrongdoing might feel, well, fleeced.❑

DEVIL IN THE DETAILS

continued from page 11

62 percent opposition. But it's not clear how much of that reflected the emphasis on "negative advertising." A similar survey by pollster Peter Hart, using different wording, found two-thirds of unionists favored political action in support of pro-union candidates.

The Luntz poll, incidentally, found that 59 percent of respondents thought the most important responsibility of unions is "protecting current jobs from layoffs and downsizing." With the exception of Pat Buchanan, conservatives aren't exactly lining up to address that concern.

THE LINCOLN-MERCURY MEMORIAL?

When Taco Bell took out full-page ads in several national newspapers to make its April 1 announcement that it was buying the Liberty Bell ("to help reduce the national debt") and renaming it the "Taco-Liberty Bell," many people didn't get the April Fool's joke. A company spokesperson said that phone lines were overloaded with confused callers.

But it's not surprising that people missed the spoof. After all, Philip Morris actually sponsored a national tour of the Bill of Rights a few years ago. And the Orkin Pest Control company, paying homage to its prey, paid for the renovation of the Smithsonian Insect Zoo.

Little goes unsponsored these days. Sports arenas and events are a good example— D.C.'s Capital Center became the U.S. Air Arena and San Francisco's Candlestick Park is now 3Com Park, though the company only bought rights for one year, leaving open the option that the sponsor might change annually—a sort of seasonal billboard. College bowl games now include the Federal Express Orange Bowl and the (at least aptly named) USF&G Sugar Bowl. But for now, our national monuments are safe. Contrary to a joke by White House spokesman Mike McCurry, we won't see the Lincoln-Mercury Memorial anytime soon. But keep an eye on the Liberty Bell—Taco Bell is, in fact, donating $50,000 for its upkeep.

—Robyn Gearey

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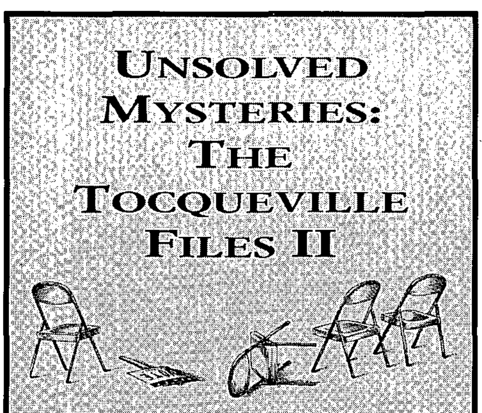
WILLIAM A. GALSTON

Won't You Be My Neighbor?

"Bowling Alone" was published in January 1995. Seldom has a thesis moved so quickly from scholarly obscurity to conventional wisdom. By January 1996 the *Washington Post* was featuring a six-part series of front-page articles on the decline of trust, and Beltway pundits had learned the vocabulary of social capital.

While the debate over the accuracy and adequacy of Putnam's measures of civic engagement rages on in academia, it seems all but concluded elsewhere. Putnam's argument has touched a nerve. Most Americans believe that during the past 40 years, important aspects of their society have changed for the worse. That belief is itself one of the dominant political facts of our time. Understanding and responding to it is one of the key tasks facing those who wish to build a new progressive coalition.



Of course this new emphasis on civil society can be hijacked: on the right, as a battering ram against government; on the left, as a vehicle for reopening the battles of the 1960s against liberalism in the name of participatory democracy. But the fact that Putnam's argument can be abused is no reason to downplay it.

Americans care about the decline of civic engagement for a range of reasons. They see disengagement as linked to the decline of trust among fellow citizens; to the loss of a sense of control over one's own fate and that of one's community; to the thinning of direct, practical knowledge of one's society and the rise of media images as powerful as they are mistrusted; and to the erosion of stability and security in our daily lives.

While concern about the weakening of civil society is pervasive, the appropriate response to this concern is far from obvious. Not only are the causes of decline obscure; the problem itself is multidimensional. One dimension is the link between voluntary associations and the functioning of official political institutions; another is the role of voluntary associations in performing valuable social tasks without the involvement of government; a third is the importance of a dense network of social relations (not necessarily groups) in overcoming isolation and making daily life more satisfying. While Putnam emphasizes, and seeks to measure, group membership and activity, the quality of informal social relations is harder to quantify, even through time-budget surveys. But I suspect that for most citizens, this aspect of civil society is at least as important as the first two.

So let's begin where the people are, with a deep concern about our overall civic and civil health. How can we best respond to this concern? My argument is this: The decline in social capital is the outgrowth of long-standing commitments across the spectrum of our politics and culture and cannot be arrested unless we revisit these commitments. Here are some examples of what would have to change:

1. Free-market conservatives would have to acknowledge that the operation of the contemporary economy isn't always compatible with a strong civil society. While social capital is largely place-specific, our corporations give less and less weight to historic community ties. The owner of Malden Mills became an instant national hero when he decided to rebuild his plant after a devastating fire; most Americans believe that most owners wouldn't

have cared enough about their workers and neighbors to make that choice.

2. New Deal-style economic liberals would have to acknowledge that the growth of government isn't always compatible with a strong civil society either. Alan Wolfe made this case powerfully a few years ago in *Whose Keeper?* A recent *New York Times* story suggested that as New York City's government retrenches, newly revitalized neighborhood organizations are springing up, in part to form new partnerships with the public sector, but also to fill the gap through their own voluntary efforts.

A story from this winter's blizzard: After our block had gone unplowed by the D.C. government for five days, our next-door neighbor, who owns a small construction company, paid his workers to come clear away the snow . . . whereupon the neighborhood got together, threw a block party, offered speeches praising our local hero, crowned him the "King of Jenifer Street," and spent the rest of the evening affirming communal solidarity with food, drink, music, and conversation. Maybe Marion Barry did us a favor.

3. Post-New Deal social liberals would have to acknowledge that while the cultural changes of the past generation have liberated individuals from various restraints, they have eroded social capital as well. Dan Yankelovich has traced a profound cultural shift over the past 30 years, with expressive individualism in the ascendant and older norms of responsibility, fidelity, and sacrifice in retreat. In his magnificent recent book *The Lost City*, Alan Ehrenhalt has documented the social consequences of this shift. Briefly: no social capital without community; no community without authority; no authority without higher levels of respect, obedience, and restraint on individual choice than have been fashionable during the past generation.

4. As a society, we would have to get much more serious about crime. Here's why: to the extent that social capital depends upon place-specific, face-to-face interactions, the perceived decline in the safety of public spaces within which such exchanges occur must be taking a considerable toll. Many older Americans, traditionally the backbones of neighborhoods, are afraid to venture outside their homes.

The problem isn't confined to a single generational cohort. Again, a personal reflection: My wife and I live four blocks away from a wonderful public park. Our son, now 11 years old, has never gone to that park alone. We haven't explicitly forbidden him to do so; he has never asked. No doubt part of the explanation is our nonverbally communicated subliminal worry. Another part is the general social fear, which he has absorbed through conversations with friends and, even more important, through television—not just from *New York Undercover*, but from the local news as well.

5. We would have to intensify our response to problems created by the media. Putnam now seems to be regretting—if not actually retracting—his emphasis on the corrosive effects of television. But if anything, he understates the case. The issue is not only the content of what we watch, or the time spent watching; it's also the consequences of the watching for patterns of social interaction.

According to Ehrenhalt, the life of a blue-collar Chicago neighborhood in the 1950s was enacted on the front stoops of its houses. Parents gathered to talk; kids ran up and down the block and waited for the ice cream truck. Today, in this same neighborhood, "A block is not really a community . . . anymore. Only a house is a community, a tiny outpost dependent on television . . . and accessible to other such outposts, even the nearest ones, almost exclusively by automobile."

6. Finally, we would have to look honestly at the effects of changing gender roles and relations. I cannot help thinking that as a matter of history, the term "social capital" refers in significant measure to the uncompensated work of women outside the domains of both home and market. Whatever the official statistics on group membership may suggest, I find it very difficult to believe that the massive entrance of women into the paid labor force over the past 30 years has been devoid of consequences for informal social networks. Ehrenhalt notes that the streets of suburban Emory Manor, teeming with mothers and young children 40 years ago, are now empty and that there is "little time during the hours at home for the gestures of community that bound the original residents together."

We must also examine the consequences of changing family structure. Whatever the causes of the "divorce revolution" that raised the divorce rate by about 250 percent between 1960 and 1980 and allowed many men to walk away from the emotional and financial responsibilities of fatherhood, a mounting body of evidence suggests that the chil-

dren of divorce are less secure than other children and find it more difficult as young adults to trust either their peers or social and political institutions.

So—to return to the beginning—what changes are we prepared to make to strengthen civil society? I don't know of many progressives who would want the restoration of the status quo ante for women; I know I wouldn't. I don't know of many conservatives who are prepared to accept even minimal restraints on corporate conduct. Democrats who accept in principle the end of the "era of big government" fight in practice to preserve its programs, regulations, and institutional structure. My own modest proposals to restrict divorce and give the well-being of children priority over the self-interest of adults have received a decidedly mixed response. Of all the requirements I've discussed for strengthening civil society, only cleaning up television and securing public spaces enjoy anything approaching a consensus.

In the end, the least tangible cause of civic decline—cultural change—may prove to be the most important. Our dominant norms are choice at the level of individual conduct and entitlement in the construction of social policy. But civil society rests on the very different norm of reciprocity: honoring mutual obligations, doing one's fair share, discharging the responsibilities that sustain a system of rights. Are we prepared to accept restraints on choice and entitlement to create a stronger society that can endure?

This is a question for all Americans. It has particular force for my own generation of baby boomers. Our parents survived the Depression, won World War II, sacrificed to wage the Cold War, invested in the future, and deferred gratification to give us opportunity. They helped build the freest and most prosperous society the world has ever known. They were indeed, as Putnam states, the "civic generation," and we are profoundly in their debt.

What about us? We tell one another self-congratulatory stories—of revealing hidden truths, fighting ancient evils, tearing down oppressive restraints. There's something to this, of course. But there's a deeper story, embedded in Putnam's data and supported by common sense: We've spent the past 30 years squandering the social capital we inherited from our parents. To do our part to rebuild our society, we must reexamine the ideal of unlimited freedom that for so long has been our polestar.

ALEJANDRO PORTES AND
PATRICIA LANDOLT

The Downside of Social Capital

In their search for new ideas, intellectuals and policymakers across the political spectrum have recently become enchanted with the concept of social capital. Liberals and conservatives alike now celebrate social capital as the key to success in a myriad of domestic issues—from public education, aging, and mental health to the battle against inner-city crime and the rejuvenation of America's small towns. In the international arena, strong social capital supposedly explains East Asia's economic success, while inadequate social capital explains the failure of the former Soviet Republics. In his latest volume, *Trust: The Social Virtues and the Creation of Prosperity*, Francis Fukuyama argues that the most successful nations in the new free-market world will be those with religious and cultural underpinnings that promote voluntary associations and help prepare people to work cooperatively in large organizations. And in two articles in *The American Prospect*, Robert Putnam argues that what residents in American ghettos, poor farmers in the Third World, and parents everywhere need is a healthy dose of social capital ["The Prosperous Community," *TAP*, Spring 1993], and that social capital in America is dangerously on the decline ["The Strange Disappearance of Civic America," *TAP*, Winter 1996].

In these discussions, social capital has come to mean the ability to create and sustain voluntary associations, or the idea that a healthy community is essential to prosperity. The popular view now portrays social capital as wholly beneficial with no significant downside. The implicit consensus is that social capital is important because it allows people to work together by resolving the dilemmas of collective action. Why this is actually so, however, is obscure. Indeed, the more social capital is celebrat-

ed for a growing list of wonderful effects, the less it has any distinct meaning. Social capital now appears poised to repeat the experience suffered by other promising social science concepts in the past: from intellectual insight appropriated by policy pundits, to journalistic cliché, to eventual oblivion. It deserves better. Any rescue effort requires examining what has gone wrong with the idea and its use in recent public debate.

Although its origins lie in the nineteenth-century classics of sociology, the concept of social capital owes its currency chiefly to the more recent work of two sociologists, Pierre Bourdieu and the late James Coleman. Bourdieu first used the term in the 1970s to refer to the advantages and opportunities accruing to people through membership in certain communities. Coleman, while defining social capital without precision, also used it to describe a resource of individuals that emerges from their social ties. Coleman cites the example of Jewish diamond merchants in New York, who save a great deal in lawyers' fees by conducting their transactions informally. Sacks of jewels worth thousands of dollars are lent for examination overnight without any paper signed. What makes these expeditious exchanges possible is the trust that associates will not shirk their obligations because they belong to the same tight social circles. Anyone found guilty of malfeasance can kiss good-bye his future chances for taking part in this lucrative market. Similarly, pupils in Catholic schools fare better than those in public schools because a teaching staff imbued with a religious ideology sees the school as a closely integrated community rather than a set of bureaucratic structures.

As an individual resource, social capital is roughly analogous to other individual assets. For Coleman, it differs from the financial capital found in bank accounts and the human capital inside people's heads; instead, social capital inheres in interpersonal relations. This analogy should not be carried too far, however, because social capital has certain characteristics, such as the expectation of reciprocity, that distinguish it from the capital that appears on balance sheets.

When a sociological concept catches on, it is commonly applied in contexts quite different from those in which it emerged. Unfortunately, Coleman's concept has been stretched in at least three questionable ways. First, in Putnam's hands, social capital has become a property of groups and even nations, rather than of individuals. Collective social capital, however, cannot simply be the sum of individual social capital. If social capital is a resource available through social networks, the resources that some individuals claim come at the expense of others.

The second conceptual stretch consists in confusing the sources of social capital with the benefits derived from them. This leads to circular reasoning because the presence of social capital is often inferred from the assets that an individual or group acquires. Thus, a student who obtains the money necessary to pay for college tuition from her parents or relatives is thought to have social capital; no tuition, no social capital. Such an inference does not take into account the possibility that the unsuccessful student also may have highly supportive social networks that simply lack the economic means to meet such an expense. For social capital to mean something, the *ability* to command resources through social networks must be separate from the level or the quality of such resources. When social capital and the benefits derived from it are confused, the term merely says that the successful succeed.

The third stretch is to focus exclusively on the positive effects of community participation without considering its possible negative implications. Coleman is partly responsible for this one-sided view because his two essays on the topic treated social capital as an unmixed blessing. The bias has since become stronger as Putnam and others have recommended social capital and its twin, social trust, as a solution for current problems, as if social capital had no downside. Yet there are several distinctly negative aspects of social capital that these analyses miss.

Conspiracies against the public. The same strong ties that help members of a group often enable it to exclude outsiders. Consider how ethnic groups dominate certain occupations or industries. The sociologist Roger Waldinger describes, for example, the tight control exercised by white ethnics—descendants of Italian, Irish, and Polish immigrants—over the construction trades and the fire and police unions in New York. Similar cases

include the growing control of the produce business by Koreans in East Coast cities and the dominance of Cubans over numerous sectors of the Miami economy. The groups' success seems to have depended more on the social capital available to job seekers and entrepreneurs than on initial financial resources or technical skills. But, as Waldinger notes, "the same social relations that . . . enhance the ease and efficiency of economic exchanges among community members implicitly restrict outsiders."

Ethnic groups are, of course, not the only ones that use social capital for economic advantage. Adam Smith complained that assemblages of merchants inevitably end up as "conspiracies against the public." The "public" are all those excluded from the networks and mutual support linking insiders. In place of "merchants" in Smith's phrase, substitute white building contractors, ethnic union bosses, or immigrant entrepreneurs and you get the picture.

In industries with strong social ties, newcomers often find themselves unable to compete, no matter how good their skills and qualifications. A particularly poignant example is that of African American contractors attempting to carve a niche in the white- and immigrant-dominated construction industry. As one such entrepreneur in New York City put it: "I think that the reason I haven't taken the next step—to having steady big contracts . . . is because I'm not in the social circles where those kinds of deals are made. . . . I can't play golf or go on boats with people." Lacking the requisite social connections, African American contractors depend mostly on the public sector.

Restrictions on individual freedom and business initiative. Membership in a community also brings demands for conformity. In small towns, all your neighbors may know you, and you can get supplies on credit at the corner store. The claustrophobia, however, may be asphyxiating to the individual spirit, which is why the more independent-minded have always sought to escape from these conditions and so much modern thought has celebrated the freedom of urban life. Now the pendulum has swung back and Putnam, Fukuyama, and many others argue for the urgent need of reinventing community.

American society may have moved too much in the direction of individualism and freedom, but a return to tightly integrated communities would bring its own problems. San Francisco's Chinatown provides a good example. On the positive side, the community is a closely knit enclave that protects the Chinese from outside discrimination and helps them launch successful enterprises and careers. In a study of Chinatown, however, sociologists Victor Nee and Brett Nee describe how Chinatown's inhabitants were closely controlled, until a few years ago, by family clans and the Chinese Six Companies or tongs. What put teeth in the clans' demand for conformity was their control of business opportunities and their ready willingness to ostracize anyone who violated the norms. One of the Nees' informants put the matter bluntly: "And not only the Moon Family Association, all the family associations . . . any young person who wants to make some changes, they call him a communist right away. He's redcapped right away. They use all kinds of tricks to run him out."

Tight social networks can also undermine business initiatives. Often, family and friends beseech initially successful entrepreneurs for support. The social capital of the petitioners consists precisely in their right to demand and receive assistance from fellow group members. But in the process, as anthropologist Clifford Geertz has shown in his studies of Bali, promising economic initiatives fail to accumulate capital and turn into welfare hotels. Similar stories have been commonly reported among impoverished urban and rural communities in the United States, where the press of obligations to family and friends routinely undermines business success.

Downward leveling pressures. While Putnam echoes the common view that the inner city is short on sociability, careful studies show the opposite. In poor areas, many people rely on their social and family ties for economic survival. From Carol Stack's classic analysis of kinship and fictive kinship in the inner city to Patricia Fernández-Kelly's study of adolescent pregnancy in Baltimore's ghetto, social anthropologists have exhaustively documented these realities. There is considerable social capital in ghetto areas, but the assets obtainable through it seldom allow participants to rise above their poverty.

For all their negative connotations, inner-city youth gangs are also social networks that provide

access to resources and enforce conformity. The same kinds of ties that sometimes yield public goods also produce "public bads": mafia families, prostitution rings, and youth gangs, to cite a few. For a ghetto teenager, membership in a gang may be the only way to obtain self-respect and material goods. In the long run, however, the pressures from these groups may hold him down rather than raise him up.

Those who want to make it on the outside on the basis of orthodox means may need to break their ties with their community. "Wannabes"—the latest lexical contribution of inner-city youth to mainstream culture—are those who imitate the ways and lifestyles of the majority in search of success. Often, these efforts meet only scorn from fellow members of their community, who see them as a threat to solidarity and their own sense of self-respect. Here, social capital creates downward-leveling pressures in opposition to attempted entry into the mainstream. The product of a long history of discrimination, these pressures ironically perpetuate the very conditions that the groups decry. In these instances, social capital does not increase human capital but prevents acquiring it.

The one-sided picture of social capital produces a series of tautologies, truisms, and stereotypes. A tautology is saying the same thing twice. At the collective level, a tautology occurs when the success or failure of a particular community is identified a posteriori with the presence or absence of social trust or social capital. In the celebratory view of social capital, if an agricultural cooperative advances economically or a city effectively carries out a reform program, it is because they had high levels of social capital to begin with; if they fail, they did not. This circularity of reasoning is facilitated by the identification of the same traits as determinants and consequences. In his analysis of the well-governed cities of northern Italy versus the poorly governed cities of the Italian South, Putnam provides a good example. In his words, "'Civic' communities value solidarity, civic participation, and integrity, and here democracy works. At the other pole are 'uncivic' regions like Calabria and Sicily, aptly characterized by the French term *incivisme*. The very concept of citizenship is stunted here." If your town is "civic," it does civic things; if it is "uncivic," it does not.

A weaker version of the tautology is the truism that dresses up commonplace facts as an original idea. Saying, for example, that high levels of interest in civic affairs and voting facilitate the governance of cities is not saying the same twice, but the conceptual "space" between antecedent and consequent is so small as to make the assertion commonplace. Several years ago, Edward D. Banfield picked yet again on the unfortunate Italian South, labeling these provinces examples of "amoral familism" (the tendency for solidarity to extend only as far as the family and exclude the broader community). Opposed to it was the moral civism found in northern Italy and presumably New England. Labels vary, but the point remains the same: Communities that are poorly integrated (low in "social capital," low in "trust," high in "amoral familism") are more problem ridden and less well governed than those where the opposite conditions prevail.

The intellectual exercise of dressing up common knowledge in fancy language tends to end up as a sermon. The policy prescriptions that follow consist of exhortations to the authorities or the communities in question to bring about the requisite public good. Consistent with his conservative bent, Fukuyama is more of a do-it-yourselfer, focusing on the communities themselves. Putnam, on the other hand, wants to bend the ear of the authorities to enact policies that increase the "stock" of social capital. No one, however, has come up with a reliable formula to produce social solidarity and trust in communities lacking them, although exhortations are heard from pulpits every Sunday.

In the Andean highlands of Ecuador, many successful businessmen are Protestant (or "Evangelical," as they are known locally) rather than Catholic. The reason is not that the Protestant ethic spurred them to greater achievement or that they found Evangelical doctrine to be more compatible with their own beliefs. Rather, by shifting religions, these entrepreneurs removed themselves from the host of obligations for male family heads associated with the Catholic Church. The Evangelical convert becomes, in a sense, a "stranger" in his own community, which insulates him from demands for support from others on the strength of Catholic norms. For these men, social

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WELFARE REFORM AS I KNEW IT

BY DAVID T. ELLWOOD

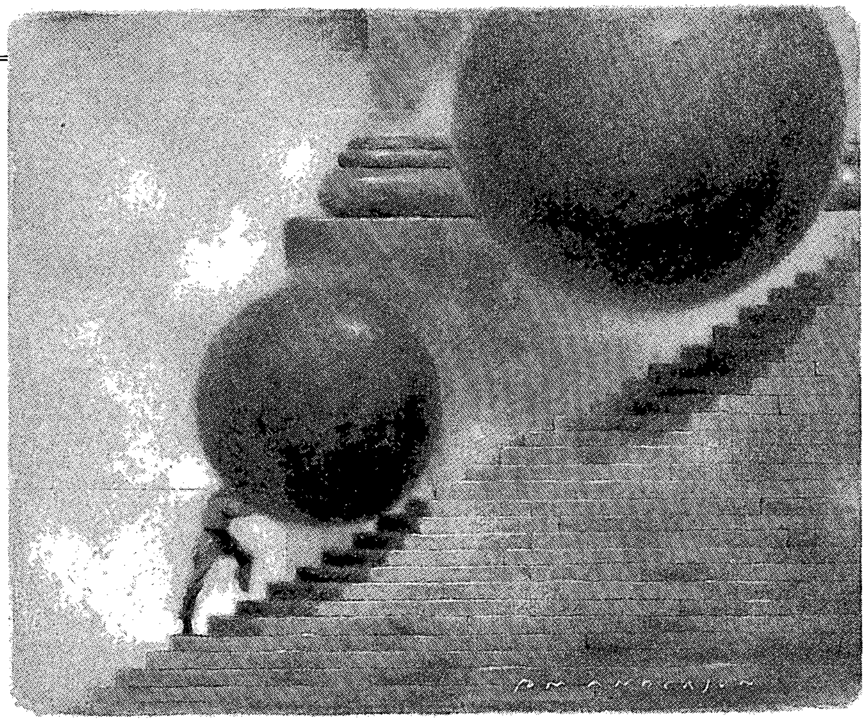
Senator Daniel Patrick Moynihan, a friend of some years, was the first to sound the warning. When I met with him shortly after arriving in Washington in February of 1993, he said, "So you've come to do welfare reform. . . . I'll look forward to reading your book about why it failed this time." Well, Senator, consider this the first installment.

In May 1994, a Times-Mirror poll asked the following question:

> One proposal currently being discussed to reform welfare would require all able-bodied welfare recipients, including women with pre-school children, to go to school for two years to learn a skill while receiving benefits. After that, they would be required to either get a job or take a job the government would give them and their welfare benefits would be discontinued. Child care would be provided for the children of working mothers. Do you favor or oppose this proposal?

Ninety-one percent said they favored such an approach. The Times-Mirror question captured very closely the basics of the Clinton welfare reform plan. Yet in spite of such apparent overwhelming public support, nothing like this plan will become law before the 1996 election. Indeed, it may never happen at the federal level, which raises an obvious question: Why did the Clinton welfare reform plan fail? And what does this failure tell us about the Clinton presidency, congressional politics, and democratic institutions more broadly? As an assistant secretary of Health and Human Services (HHS), I was closely involved in the development of welfare reform. Along with Mary Jo Bane, also an assistant secretary, and Bruce Reed, a White House adviser, I cochaired President Clinton's working group on welfare reform and was one of the people who drafted the plan. I had devoted my life to studying poverty and welfare, and was flattered during the 1992 campaign when Bill Clinton had cited my work as an influence on his ideas. When the offer came for me to go to Washington and help to craft real welfare reform, I was thrilled.

The Clinton Reform Strategy



Those of us who put together the policy started with a particular analysis of poverty and welfare. First, low-income working families get a particularly bad deal today. Many workers, especially those with less than a college degree, have seen their wages drop, and they often receive little or no health coverage and little help with child care or other costs. The deteriorating living standards of working families pose an enormous challenge if we genuinely want people to move off welfare and be able to live decently.

Second, the welfare system must be transformed. Everyone seems to agree that welfare should be "a hand up, not a handout." Yet welfare administration is mostly about eligibility and benefit determination—check writing. The welfare system sends the message in a myriad of ways that traditional employment is foolish. If we are serious about work and opportunity, we need to change the whole culture of welfare offices. From the moment someone walks through the door, every signal ought to be that work is the ultimate goal and expectation.

Next, even when parents live apart, both of them ought to have the responsibility and opportunity to nurture and provide for their children. Based on surveys of absent fathers, Elaine Sorenson of the Urban Institute estimates that more than $48 billion for children could be generated every year by a system of child support that found every absent parent and collected money according to the simple formula now in use in Wisconsin. Current collections are just $14 billion.

Finally, we need to reduce the large number of children born to unwed mothers, especially teen mothers. Child poverty will always be a problem if we fail to signal to prospective parents that they should not have children until they are prepared to nurture and provide for them.

By confronting these problems and designing a system oriented toward work and responsibility, we believed we could dramatically improve the well-being of children. The four key elements of the Clinton strategy reflected this analysis.

Make work pay. The strategy sought to support the efforts of all working families by dramatically expanding the earned income tax credit (EITC), ensuring universal health care coverage, and helping with child care costs of working families. The higher EITC and health coverage would amount to a substantial pay raise for millions of low-wage workers.

Two years and you work. The Clinton policy sought to transform the welfare system from one focused on eligibility and check writing to one designed to move people quickly to work. From their first contact with welfare, people would be expected to seek work or train for it. After two years, most healthy adults would be required to work, preferably in a regular private job, but if necessary in a subsidized private, nonprofit, or public-sector job.

Child support enforcement. The plan sought to improve child support enforcement through a series of measures: promoting the establishment of paternity at birth in the hospital, comparing reports on new hires with a new national registry of people ordered to pay child support, automatic wage withholding, improved interstate enforcement procedures, and even work requirements for absent parents who refuse to pay. The bill also included measures to improve opportunities for noncustodial parents to do more to nurture their children.

Fight teen pregnancy. The program offered grants to up to 1,000 high-risk schools that proposed innovative teen pregnancy initiatives, a nationwide clearinghouse of information on teen pregnancy, and a few intensive demonstration projects. The policy would also hold parents accountable for their children: Teen parents who were living with their child would be expected to stay in school, stay at home (or if the home was unsafe, in some other supervised setting), and once they completed school, go to work to support their child. Absent teen fathers would be held accountable by the child support system.

More has been accomplished in this agenda than many people realize. In particular, a large expansion of the EITC passed with Clinton's first budget, so that working families need not be poor. The story on child support enforcement is also positive. Virtually all of the important child support enforcement measures included in the administration's welfare plan are also included in the welfare proposals before Congress. If the EITC expansion survives and the child support measures pass, children will be much better off. And many states are seeking to adopt work-oriented welfare reforms by applying for waivers, a legal provision that allows the secretary of HHS to waive certain federal rules for states demonstrating alternative policies.

But much has not been accomplished. Health reform fell to defeat, and today there is no chance that this Congress will pass anything like the "two years and you work" elements of our plan. So what happened to the parts of the plan most directly related to changing the welfare system?

A Fundamental Flaw?

To many people, the problem with "two years and you work" was what to do with people who reached two years without finding a job. There were good reasons to be concerned: More than two-thirds of recipients on the rolls at any one time have already been on welfare for more than two years (cumulated over one or multiple periods of eligibility). Some of these people are disabled; others are already working at least part time. Many would find jobs if they had the right set of supports and received a clear message that they had to work, but the government would still need to create a significant number of jobs.

Putting welfare recipients to work in subsidized jobs naturally raises anxieties among government workers that they might be displaced. In our first meeting, the president of the American Federation of State, County, and Municipal Employees, Jerry McEntee, said something like, "Near as I can tell you want to put more welfare recipients to work in public-service jobs than I have members." He found that "mildly" threatening.

Moving welfare recipients in large numbers from welfare to work had never been tried, nor had large-scale creation of subsidized jobs for welfare recipients. The closest cousin was the Carter administration's program of public-service jobs under the Comprehensive Employment and Training Act (CETA), which continues to have a bad odor in both Democratic and Republican circles.

Compounding these problems was the related issue of cost. Providing child care, training, and work is more expensive in the short run than simply writing checks—unless people move off welfare quickly. Senator Moynihan was emphatic that finding the money we needed was next to impossible.

Fortunately, poll data suggested a "two years and you work" plan would be popular with the public even if it required government jobs and additional money. For example, a November 1993 poll for *U.S. News* asked Americans whether they would favor a plan to "require job training for those on welfare and after 2 years require them to work." Ninety-three percent said yes. Even in a modified question that asked about requiring welfare recipients to work in "government jobs" if necessary, 82 percent favored the plan. An overwhelming majority expected reform to cost money in the short run, and they favored it nonetheless.

Still, poll data often can mislead, and the jobs and cost issue needed to be confronted. The Clinton welfare reform plan focused on ways to place people first in unsubsidized jobs, then in subsidized private and nonprofit jobs rather than in government or workfare jobs. It offered strong protections against displacement to public employee unions. And it started with only a third of welfare cases and gradually phased in the rest. Administrators and policymakers would thus get time to learn what worked and what didn't, and it would keep the cost down.

The slow phase-in did carry some political costs. Some critics cited it as evidence that we were not serious about work or time limits—a particularly galling criticism because in my view, the best evi-

dence of our seriousness about reform is that we phased it in at a doable rate, rather than promising we could simply create a work-based system overnight. Starting with a small group of recipients and gradually expanding has been the hallmark of Republican governors who are credited with major welfare reforms.

Initially, the signs were positive in Congress. The bill introduced by House Republicans in the fall of 1993—six months before ours arrived—was unambiguously a "two years and you work" measure. Virtually every Republican was a cosponsor. Ironically, this initial Republican proposal would have created far more public jobs than we did and used the private sector far less. Moreover, the bill would have spent more on job creation and child care. Conservative Democrats developed their own plan, similar to Clinton's, but with a faster phase-in and more money for work slots and child care.

Still, no one wanted to raise taxes to finance welfare reform. Thus, all the bills made cuts in other programs to pay for the expansions in work and child care. Finding those cuts proved one of our most difficult tasks. Indeed, much of the struggle we faced within the administration and with Congress was the result of opposition not to the welfare reforms provisions, but to the other cuts used to finance welfare reform. Eventually, though, we found a financing package that most people could accept.

This history is rife with ironies. Since the Clinton bill was introduced in the summer of 1994, evaluations of state experiments have shown that work-oriented reforms in states with high benefits can push enough people to leave welfare quickly, or not apply at all, that welfare savings exceed job training and child care costs. Moreover, the kinds of cuts in social programs now being proposed even by Democrats are vastly greater than the modest reductions we proposed to finance welfare reform.

Another criticism of the Clinton bill comes from conservatives who argue that its biggest weakness was its failure to address out-of-wedlock childbearing. In their view, the welfare system has caused the dramatic changes in family structure of the past 30 years, and thus welfare reform ought to be about "illegitimacy," not work. It wasn't only the Clinton plan that upset them; these ultra conservatives also roundly attacked the 1993 House Republican bill for failing to attempt to reduce out-of-wedlock childbearing through massive cuts in benefits, especially for families with "illegitimate" children.

Long before almost anyone else talked about these issues, Senator Moynihan had warned about family changes. He now points out that by his projections, half of all children will be born out of wedlock by early in the next century. Yet he is especially critical of plans to cut benefits to "save" our children. No credible studies suggest that anything more than a tiny part of the changes in family structure can be traced to welfare benefits. Recently, New Jersey's denial of additional benefits to mothers on welfare who have additional children seems to have had no impact on out-of-wedlock births, according to data from a carefully controlled experiment.

> No credible studies suggest that anything more than a tiny part of the changes in family structure can be traced to welfare benefits.

The truth is that no available policies promise more than a very modest reduction in out-of-wedlock births and family breakups. That is why the Clinton reform plan focused on the area where the problem seemed most manageable—teen pregnancy—and included money for new demonstration projects and information sharing.

A final criticism that has emerged since the 1994 election is that federal leadership in welfare reform is a mistake. Most recent innovation has come from the states and, in principle, the states can design programs that make the most sense for their economy and population. Still, history is filled with examples of states choosing to ignore poor families or ignoring racial minorities, regions, or types of families. Moreover, if one state's rules differ markedly from those of another, there will be an incentive for migration. It is a lot easier to move poor people from welfare to the state border than from welfare to work. Needs and resources also differ widely across states. The states with the smallest tax base are usually the states with the greatest proportion of poor children and families. Fearful of becoming "welfare magnets," some states may cut benefits and impose more punitive measures than they would otherwise prefer.

Thus, we went with national rules regarding

time limits and work. Beyond that states would have enormous flexibility for innovation. They could design virtually any welfare-to-work plan and subsidized work program that they wanted. But the basic "two years and you work" architecture would be national, and participation would be tracked nationally.

Looking back, I remain convinced the Clinton welfare reform plan made sense both practically and politically. The basic approach enjoyed strong public support, and while the dangers in steering legislation through Congress were real, they were not insurmountable. I am far less convinced, however, that the administration made the right strategic choices.

> I doubt most Americans are even aware that we introduced a welfare reform bill.

Was the Strategy Bungled?

Conventional wisdom in Washington these days is summarized aptly by the title of a cover story in the *New Republic* shortly after the 1994 elections. "They Blew It," the article proclaimed, arguing that the administration basically got the policy right, but that it introduced welfare reform far too late (in particular, after health reform) and with far too little focused effort.

There was a moment early in the administration that might be said to have determined the fate of welfare reform. Until just days before it was sent to the printer, the first Clinton budget included several billion dollars for its future welfare reform proposal. Removing that money had almost no noticeable effect on the $1.4 trillion budget, but it greatly affected the timing and thus the fate of welfare reform. If that line had remained in the budget, the administration would have been forced to submit its welfare reform proposal by late spring 1993 rather than the summer of 1994. With the money taken care of, we could have avoided a search for dollars that ultimately consumed much of our energy.

The last-minute budgetary shift proved to be symptomatic of a deeper problem. Only a tiny handful of people in the White House really cared deeply about the issue. The president clearly did, along with a few others. A small group inside the White House and at HHS were left to develop the plan largely on our own. This seemed a blessing—until we needed to find money for welfare reform, or to get on the crowded legislative agenda, or to gain a presidential public appearance.

The decision to move health reform first was plausible at the time but in the end proved to be a mistake. The submission of the welfare reform legislation, now called the Work and Responsibility Act (WRA), was delayed until the summer of 1994 and then got relatively little fanfare. As health reform faltered and the crime bill struggled in Congress in August and September 1994, the administration did relatively little to push for passage of welfare reform before the elections. I doubt most Americans are even aware that we introduced a welfare reform bill.

Another strategic failing was rhetorical. Governing requires a powerful political message as well as good policy. Consider the phrase, "If you work, you shouldn't be poor," which Clinton used during the campaign. That simple but powerful concept compelled action when he became president. When I first arrived in Washington, advocates pointed out that in spite of the president's promise, the earned income tax credit that was about to be introduced in the budget was too low to raise the working poor out of poverty. As a result, we added more than $1 billion to the EITC in an afternoon. It was the last easy billion I found in Washington.

The president's famous promise to "end welfare as we know it" was the most potent sound bite on welfare. It came up so often that we referred to it as EWAKI. Yet while implying that welfare is a massive failure and conveying seriousness of purpose about reform, EWAKI only vaguely suggests that we can replace the current system with something better. Even more destructive was the phrase "two years and you're off." Our pollsters told us that "two" was the single most memorable number of the 1992 campaign. The problem, of course, is that "two years and you're off" seems to imply no help at all after two years. That is never what was intended. Nonetheless, this phrase gave real impetus to plans now before Congress and in the states that call for time limits followed by nothing—no welfare, no jobs, no support—even if the person is willing to work and genuinely cannot find any job. In my view, these measures are appalling.

A much better phrase, which more accurately

conveys the Clinton welfare plan, was "two years and you work." Its virtue is that it conveys a promise (employment) as well as a threat. Polls and focus groups suggest "two years and you work" would have been just as popular as "two years and you're off," perhaps even more so. In the *U.S. News* poll cited earlier, when people were asked whether they favored a plan to limit welfare benefits to two years, not allowing beneficiaries back on welfare ever, only 22 percent were in favor.

Still, to attribute the collapse of positive welfare reform to the president's rhetoric would miss the larger reality of public opinion. Republican Governors Tommy Thomson and John Engler got enormous political mileage out of welfare reform in two relatively liberal states, Wisconsin and Michigan, long before Clinton ran for president.

Derailed on the Hill

Although the WRA came to Congress very late, there was a surprising amount of support for it when people finally saw the details. The Democratic caucuses in both chambers were far more supportive than many in the administration had anticipated, and even Republicans started out on a positive note. Senator Moynihan, who chaired the Senate Finance Committee, and Representative Sam Gibbons, who chaired the House Ways and Means Committee, were both supportive, and Gibbons started pushing hard for immediate action.

But the enthusiasm was not uniform. Several members of the House Ways and Means Subcommittee on Human Resources, where the legislation would originate, could barely disguise their frustration. We had satisfied organized labor; most liberal advocacy groups were not adamantly opposed to our bill, and some supported it. Nonetheless, these congressmen were convinced that any action on welfare reform would inevitably lead to a disastrously punitive bill, especially in an election year. Some suspected that the Clinton administration wanted welfare reform for the wrong reasons—that it was "boob bait for Bubbas," a fear Senator Moynihan had expressed months before the administration produced a bill. And though we had met with them repeatedly, they felt that in drafting the legislation, we did not pay attention to their concerns. Key subcommittee members argued vehemently that it made more sense to consider welfare reform in 1995, when election pressures would be reduced. They felt we had too little time left in 1994 to seriously consider the bill. And the administration chose not to push hard for reform in a summer when the crime and health bills were at the top of the agenda.

To many of us in the administration, some of the Democrats seemed unwilling to make serious changes in welfare and were out of touch with the public. They were extremely skeptical of time limits, even if followed by work. One member repeatedly asked me about how we would guarantee protection of people who refused to work. Meanwhile, I was fighting within the administration to assure work slots for people who were willing to work but unable to find any job. But whatever the reasons, action was put off in 1994, with the expectation that we would resume after the 1994 elections.

In spite of the strategic and policy problems we faced, my view going into the November elections was that we were eventually going to get good legislation. I expected the bill to move left in subcommittee and then right on the floor of the House. In the Senate, things seemed to be in reasonably good shape, though many battles remained to be fought.

Then came November 1994.

The Republican Takeover

After the election, welfare reform went on a remarkable political journey. It's not just that Republican proposals replaced Democratic bills on the congressional agenda. Few people realize how radically the Republican welfare plans have changed. The bill that emerged from Congress late last year bore only a passing resemblance to the original Contract with America. Far from being a coherent expression of a more conservative philosophy, the legislation was an uneasy compromise between competing positions advanced by various factions in the Republican Party.

First came the work-oriented reformers. They believe people should be expected to work or in some cases to train for jobs, even if that requires more money. Next, the social policy critics argued that misguided government support is the root of social evil. For them, less is better, and all aid should come with the strictest possible rules regarding behavior from work to school attendance. The devolvers emerged as a third group. They have been led by Republican governors who want Washington to limit its role to providing resources and to defer to the states on the substance of welfare policy. Finally, there were the

budget cutters, who do not really care much about welfare policy one way or another. Their top priority is to cut the budget, and they will go as far to cut social programs as the political realities allow.

These positions are incompatible, but that has not prevented Republicans from embracing them. Most Republican members of Congress, like most Democrats, have little knowledge about welfare and much dislike of it. Thus, no gravitational force of shared conviction prevents the policy from oscillating from one position to another as influence shifts among coteries of activists. Work-oriented reformers created the 1993 House Republican bill—and all of the Republicans signed on. In the Contract with America, the ideological policy critics withdrew money for jobs and child care and added strict work rules, cold-turkey time limits, and harsh sanctions for unmarried parents and their children. Again, virtually all House Republicans initially signed on.

Then Republican governors rebelled at such "conservative micro management," complaining that they were left with a nightmare: less money and less flexibility to make their own policies. Under their influence, the chairman's mark—the bill considered and marked up in the key House subcommittee—was almost a pure block grant, with feeble and meaningless work requirements. Democrats pounced on the bill as "weak on work." As a result, the work requirements were strengthened to the point of being almost unachievable. Yet no more money was added to enable states to carry them out; indeed, the dollars kept shrinking. The final House bill actually cut further than the Contract with America did. The Senate softened things up somewhat. It added money for child care, required states to maintain most of their current spending, eliminated some of the worst restrictions such as those on benefits for legal immigrants, and adopted more practical work requirements. But in adopting the block grant approach, the Senate also eliminated the national entitlement for cash assistance, severely reduced federal spending, and failed to make the work requirements feasible.

Though I was long since out of office, I was deeply disappointed when the president implicitly endorsed the Senate measure. It was not a good bill and would have significantly increased child poverty. In January, fortunately, the president vetoed the bill that emerged from House and Senate conference.

As I write, there is yet another flurry of activity surrounding welfare. Given the pending bills, my hope is that nothing passes in 1996. If what emerges is close to the previous conference bill, I fear for our children. Few people realize just how small the block grants are and how much they vary by state. Arkansas will have less than $600 per poor child per year in federal dollars for cash support, work and training, and child care! That is less than $12 per week. But somehow, the state is going to place tens of thousands of mothers in jobs. In contrast, many of the wealthier northeastern states will get more than $2,000 per poor child per year. That still amounts to just $40 per week per poor child. Simultaneously, states will have to cope with dramatic cuts in support for disabled children, immigrants, and Medicaid, not to mention the impact of any recession.

States cannot and will not do the impossible, but they will do the possible. The possible is to cut people off, to offer less service, and to provide less child care for the working poor not on welfare. Because the block grant will reduce federally required state spending and eliminate federal laws regarding eligibility, some states will find it much easier to cut people off than to move them to work. And so the race to the bottom will begin. Even governors and legislators who want to focus on work-based reform may find it too costly if nearby states threaten to dump their poor by simply cutting benefits.

And what of the federal commitments? Who will defend cuts in the welfare block grant versus reductions in Medicare or farm programs or tax cuts? Will a block grant long endure with a funding formula yielding payments per poor child as wildly divergent across states as this one? Many of those on the right privately admit the real goal is to end federal spending on welfare entirely and that this is the first step on that slippery slope. That is certainly where I would predict we will end up.

Lessons for Next Time

As I reflect on the experience, I continue to believe that we came very close to success in spite of our many mistakes. If it had not been for the 1994 elections, we could have had thoughtful and progressive reform legislation. So maybe the outcome is simply idiosyncratic—bad timing. We got hit by a freight train, in part, of course, because our own train moved too sluggishly. And yet the failure

to achieve meaningful reform poses a larger challenge. Is there any way to avoid Senator Moynihan's implicit claim that welfare reformers are doomed to write their own obituaries?

While many people complain about welfare, most are poorly informed and uninterested in learning or hearing much more. The press will do little to illuminate the real policy alternatives. There will always be an inside-the-Beltway dialogue carried out in the press with the premier reporters. But few papers will cover the issue, and few people will read what they publish. Unless the issue is number one or two on the national agenda, the public will remain skeptical and alienated. Worse yet, the issues of race and class lie just below the surface, occasionally producing ugly stereotypes, often clouding the political dialogue. Nowhere in domestic policy is the us-versus-them mentality worse. One can rail against the darker and faceless underclass, assigning blame and denying responsibility.

> We got hit by a freight train in part because our own train moved too sluggishly.

Many members of Congress are also poorly informed. The few who do care deeply enough to follow it day to day are more knowledgeable, but they also tend to have strong ideological views and gravitate toward a few choke positions on committees, where they can wield considerable power. That's why dramatic change is so difficult when power has been stably distributed for a long time. And that is why the policy changes can be so breathtakingly large when a new group comes into power.

After such a litany, one might be tempted to give up. And yet there remains a fundamental reality: Americans are afraid for their future and genuinely do want to help those who would help themselves. I believe the anger and the ignorance are not born primarily of selfishness or bigotry. The harshest critics of welfare are the recipients themselves. Rather, it comes from a sense that core American values are being undermined, not reinforced, by the welfare system.

So the fight for reform will go on. But to those who fight the next battle, let me offer a few words of advice. First, you need to make a fundamental strategy call: Do you go for a radical change with high political visibility or more modest changes and lesser attention? Dramatic changes can occur in only two ways with a hot-button issue like welfare: a revolution where a new party seizes control or a high-profile effort that captures the imagination of the public. The latter probably demands intensive executive leadership or a major social movement.

The alternative is quieter reform that requires settling for less dramatic changes and working in a bipartisan way. Bipartisanship is much harder to achieve on highly charged issues. But if the spotlight is elsewhere, quiet diplomacy can do a great deal. We are close to achieving a remarkable success on child support enforcement that is the result of intensive bipartisan effort. It has gotten almost no attention because it creates little controversy. Quiet diplomacy, however, has a cost in boldness. In child support enforcement, we lost the most innovative and exciting new idea: demonstrations of an insured child support system that would have guaranteed custodial parents at least some child support money each month. The Family Support Act of 1988 falls somewhere in between these two strategies, but it too was a bipartisan effort that gathered relatively limited public attention.

Articulating your core values is critical. Social policy directly and indirectly sends some of society's most powerful messages about what we respect or condemn. In deciding on those values, you have to listen closely to what the public believes and expects. In my experience, even those who don't agree will hear you out if you are honest about your values.

Next, recognizing that the public will hear and comprehend only a limited set of messages, keep your ideas and message simple and clear. Political language often obscures more than it clarifies; rarely does it have real policy content. I'll take "make work pay" over "end welfare as we know it" any day.

Cultivate Congress and the press. It is so easy and tempting to see them as your natural enemy. Members of Congress have strong ideas of their own; the press often seems to want to simplify, exaggerate, and inflame. But they are the fundamental instruments of our democracy, and virtually all genuinely want to serve the public interest and believe they are doing so.

Finally, introduce your bill early and, if you want it to pass, stay out of the way of freight trains.❑

The Corrosive Politics of Virtue

BY JAMES A. MORONE

The most influential men in America met in Boston. The nation, they agreed, faced a terrible moral crisis: rampant substance abuse, sex (even the old taboo against naked breasts seemed to be gone), illegitimacy. Public schools were languishing, the pursuit of profits was appalling, the explosion of lawsuits completely out of hand. Worst of all, parents were doing a terrible job of raising their kids—not enough discipline. "Most of the evils" that afflict our society, reported the conference, stem from "defects as to family government." The gathering published a famous call for moral reform in 1679.

More than 300 years later, the old jeremiad is still doing a brisk business. From every political quarter we hear the same story—moral failures vex the nation. Almost no one in public life demurs. The warnings of spiritual decline sound vaguely plausible. Besides, why oppose calls for more virtuous behavior?

This essay suggests why. The moral diagnosis is wrong and its political consequences are pernicious. The moralizing divides Americans into a righteous "us" and a malevolent "them." Once those lines are drawn, you can forget about social justice, progressive thinking, or universal programs. Instead, the overarching policy question becomes "How do we protect ourselves and our children?" Never mind health care—build more jails.

Contemporary moralizing stands in a long, unhappy American political tradition. When economic and social problems are transformed into declining moral standards, the hunt is on for immoral people who threaten the public good. There are always plenty of suspects (though the contemporary list is particularly skewed toward poor people's sins). In the tumult of their witch-hunts, Americans ignore an alternative moral tradition that aspires, with Abraham Lincoln, "to touch . . . the better angels of our nature."

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The Preachers

Today, the calls to virtue sound across the full spectrum of American culture. At the highbrow end, academics like James Q. Wilson (*The Moral Sense*) and Gertrude Himmelfarb (*The De-Moralization of Society*) set out, as Wilson puts it, "to help people recover the confidence with which they once spoke about virtue and morality."

> Contemporary moralizing stands in a long, unhappy American political tradition.

Among the middlebrow, the footnotes start to melt away and exhortation takes over. William Bennett, Ben Wattenberg, Amitai Etzioni, and many others have enjoyed success thumping rectitude to general audiences. "SHAME," blares the cover of *Newsweek*. The subtitle tells the story: "Intolerance has gotten a bad rap in recent years, but there should be a way to condemn behavior that's socially destructive."

Finally, down at the other end sits the really big morality market. Fundamentalist and evangelical books (and tapes and videos) offer rousing sermons, exhortations, and warnings. Preachers like Tim and Beverly LaHaye construct a vivid narrative of America that can be summed up by the titles they have published in the past three years: *Faith of our Founding Fathers*, *The Spirit Filled Family*, *A Nation Without A Conscience*, and *What Everyone Should Know About Homosexuality*.

Put aside the differences in tone, sophistication, and packaging, and what you find is a startling convergence in the message. From prestigious academics to fundamentalist preachers, the moralists offer very different audiences a consistent narrative about American politics and culture. It is a story in which good people try to cling to their morals despite an overwhelming, sneering, secular tide.

When "ordinary men and women . . . wish to make moral judgments," writes Wilson, "they must do so privately and in whispers." Himmelfarb wonders "whether the million purchasers of William Bennett's *The Book of Virtues* had to overcome their initial embarrassment in order to utter that word." Once upon a time, the dirty pornographer or the embarrassed condom purchaser skulked about. But with the great revolution of American mores, it is now those who would be good who sneak red-faced while pornography is everywhere and condoms (but not prayers!) are passed around in school. Reading across the literary spectrum, the tone moves from tart irony to raw outrage—much of it directed at the federal government for buying condoms while barring Christ from public schools. But the constant message boils down to this: Our society has abandoned the morals that once guided us.

And there will be hell to pay. The trends, writes Himmelfarb, bode "even worse for the future than for the present." Or, as Reverend LaHaye puts it in *The Battle for the Mind*: "For over seventy-five years, judges, legislators, governors, mayors and presidents have introduced legislation based on [secular humanism] which is destructive of morality and family solidarity. We have arrived at the gates of Sodom and Gomorrah." Recall that God burned Sodom and Gomorrah to cinders in His wrath over the people's iniquity (in fact, it's at Sodom where the Bible first raises the specter of brimstone and fire).

How do we avoid that kind of fate? In *Strength For the Journey*, Jerry Falwell puts it directly: God needs us to "save the nation from inward moral decay."

Still Holier than Most

Has America really developed a secular culture that runs down morality and deprecates religion? No. The charge is popular fiction. Every available measure suggests people in the United States continue to talk about God with a gusto unmatched in the Western world. G.K. Chesterton once described the United States as a nation with the soul of a church. The description remains apt.

According to surveys by the Gallup Organization, 95 percent of Americans profess a faith in God—a number that has scarcely budged in years. (The fig-

ure is 76 percent in Britain and 52 percent in Sweden.) Or take the common polling routine that probes for belief in the Ten Commandments. Again, no Western nation beats the United States. Getting back to sex, for example, 87 percent of Americans tell pollsters that adultery is "always wrong" compared to 48 percent in France. More than three-quarters of the population belong to a church, a steady 40 percent say they went this week, and 9 percent claim to go to church "several times a week." Only the last figure, reported by the National Opinion Research Center, has changed much in the past two decades—and it is up 30 percent.

The measures of American faith stretch on and on. More than one in four Americans owns at least five Bibles. The Family Channel is one of the top ten cable channels, the Christian Broadcast Network claims a million viewers a day. The pope sells out whenever he prays in an American stadium. So does Billy Graham. And mobs of weeping men go to Promise Keepers rallies and roar approval to variations of the following: Jesus is Number One and we are on His team and we are going to win. (Check out the glossy *Promise Keepers* magazine next time you are at the supermarket.)

Nobody out there is blushing when they whisper "*Virtues*" to the bookseller.

Nor is religious conviction in America anything new. So why all the breathless moralizing about secular humanism, bad behavior, and looming perdition? To understand, we have to look more directly at the social and political project that lurks beneath the crusade to make us good.

The Politics of Morality

The vice squad has constructed a simple story. Most Americans are good, but we are surrounded by rampant immorality. And that tide of misbehavior threatens America in fundamental ways. The jeremiad has three effects.

First, the moralizing reassures. Good people are not to blame for social troubles or economic tribulations. Quite the contrary, the entire message encourages and comforts moral folks (who manifest their morality by buying the books and calling the toll-free numbers in the first place). "Most of us have a moral sense," writes Wilson. The message resonates precisely because most Americans do consider themselves decent, religious, moral.

Second, the moralizing message drafts readers into a political fight. Each preacher would muster us into a somewhat different battle line in the great American culture war: crime, illegitimacy, divorce (Wilson); crime, welfare, educational discipline, affirmative action (Wattenberg); crime, welfare, teen pregnancy (*Newsweek*); Satan, moral permissiveness, abortion, drugs (Falwell).

Third, the message engages an enemy. And with this we arrive at the crux of the matter. The effect of all this sermonizing is to construct an often shadowy, immoral "other." These bad people explain why life is hard or why times are confusing or why America is not what it used to be. Some, like the fundamentalist preachers, name names with relish: homosexuals, abortionists, welfare mothers. Others try to pick more carefully. Wattenberg says the battle is about crime and welfare (which all good people agree on) and not about abortion and sexual preference (where his own friends no doubt disagree).

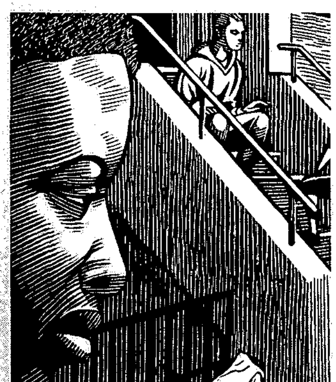
The political result is a great division: a virtuous us, a vicious them. "They" threaten us. "They" are ominous, cruel, and depraved. (I'm not making these words up.) In the real world of political passions, fine distinctions among the issues (like Wattenberg's) get lost in the tumult. The outcry against sin leads, willy-nilly, to the fight against sinners. What we get is the logic of the witch-hunt. The moral framing of our social troubles—good us, evil them—permits leaders (and demagogues) to cash in with whatever enemy resonates among the people (more on just who that really is in a moment).

To be sure, every author I have named would be appalled at talk of witch-hunts. (Almost every Puritan minister was appalled by what went on in Salem in 1692.) But what they have done is framed our politics as a moral crisis that threatens the nation. (Listen to the echoes: "An army of devils is horribly broke in upon the . . . people of God," wrote Cotton Mather about the witches as their trials went on and on.) Leave it to political leaders, angry voters, and less honorable intellectuals to take it from there.

Of course, moral and religious divisions mark most societies. And Americans have long been split between what sociologist James David Hunter calls orthodox perspectives (there is one truth for everyone) and progressive views (truth is contingent, people have their own values). What is different about the great moments of moral conflict is their primacy. The culture war goes front and center on the political stage. Today's moralizers have successfully filled

the Great Enemy Vacuum left by the end of the Cold War. The fate of the nation now seems to rest on moral uplift. Ironically, our politics get most ugly precisely when values come to matter most.

What is most startling about the contemporary moral cry is its bias. The celebration of virtue stops at the market's edge. The lamentations about lost values are directed largely at poor people. There is scarcely a word about what the privileged owe their society. This gospel runs lightly over the corporal works of mercy or all that trouble in the temple between Jesus and the money changers. Today, the apostles of virtue offer almost no sermons on loyalty toward workers, obligations toward the poor, or the greed of some corporate officials.



The apostles of virtue offer almost no sermons on loyalty to workers, obligations to the poor, or the greed of some corporate officials.

Where are the moralizers when Fleet Finance gets caught in "predatory lending practices" (that means lying to the customers about their interest rates)? And Fleet, New England's largest bank, managed to duck an even worse charge, "equity theft" (that's stealing from the customers). On a still grander scale, the savings-and-loan fiasco involved plenty of moral meltdown along with economic miscalculation. Yet scarcely a word from the political pulpits. The wrath is reserved for bad kids and their moms, not bankers or CEOs.

Why? Partially because the values movement is about explaining popular anxiety. Criminal delinquents make an ominous, predatory other. More important, they fit neatly into a picture of American troubles that conservatives framed long ago: The lazy, self-indulgent, criminal poor are responsible for their own troubles, the growth of liberal welfare government, and the dwindling opportunities for the hard-working, moral us.

Inside this worldview, even the stingy contemporary welfare state is insupportable. Charity means tough love. The kinds of policies that meet the need run to more police, tougher sentences, chain gangs, and the return of death penalties. After all, the good of the nation is at stake.

What is lost is the image of shared fate against common troubles. Benedict Anderson writes that the very idea of a nation rests on "imagined communities"—an idea that people share a common experience, a common fate, and common values. When liberals call for universal programs, they are tapping into precisely such a political construction.

Moral politics wrecks the universalist impulse. Danger is lurking right at home, within our own communities. Programs that provide everyone with, say, health care, fund the very delinquents that threaten our peace.

Precisely that suspicion exploded on the Clinton administration's health reform project. I heard the bang while debating a moderate Republican senator who opposed the president's plan. Toward the end of the session, the senator abruptly turned to face me. His body language said, "OK, now let's quit kidding around."

And here's what followed: "Look, Professor, you can't expect the hard-working people of suburban Cook County to go into the same health care alliance as the crack heads in the city of Chicago." The kicker came when I turned to the audience, all set to joke aside this fatuous dichotomy. What I saw was a roomful of sobered liberals. "Yes," they were thinking, "that is a problem." Our imaginary community—struggling together over a troubled health care system—had vanished. Now it was a hard-working us and a drug-abusing them. "Hey," I yelped, "those uninsured Chicago people are college students and hard-working nurses and taxi drivers doing double shifts and single moms holding down two jobs. . . ." No dice. In fact, it only got worse. Crack heads and single moms.

Bad People

It goes deeper than defeating new social programs. Moral panics erode liberalism itself. Remember, liberalism grew out of the bloody European religious wars; its early proponents hoped

to get the religious fights out of politics by protecting private choices and individual rights. Liberalism, writes Steven Holmes ["The Liberal Idea," *TAP*, Fall 1991], insists that "no individual can claim to have [political] motives that are morally superior to his neighbors." Or in the inelegant patois of economics, we all maximize our own utilities.

The United States may have the most liberal political rules on the planet, but moral dangers introduce an often illiberal political style. Politics spill into the private sphere. Rights and protections fail to hold. After all, someone is acting in wrong and dangerous ways. Their misbehavior threatens good people. Moral politics would rule the group, their goals, or the way they act right out of the national community. (Yes, of course, there is another moral tradition, which we'll get to.)

The illiberal urge gets particularly intense when sins are projected onto racial or ethnic groups. The underlying political question becomes: Are those strange people going to slip their moral aberrations into our cultural mainstream?

In a society as diverse and changing as this one, moral perils come along all the time. Nineteenth-century mobs often rioted over the growing number of Catholics, occasionally torching those dubious convents full of unmarried woman at the beck of unmarried priests. Chinese men allegedly used opium to seduce white women, prompting a panic and early drug controls beginning in 1877. Even social reformers like Jacob Riis professed disgust at the "ages of senseless idolatry, mere grub worship" that left "John Chinaman" incapable of anything so "gentle" or "unselfish" as Christianity. This prejudice barred Chinese immigrants from naturalization until 1952. Theodore Roosevelt's mentor on immigrants, sociologist E.A. Ross, took an inventory that scored Jews as "moral cripples with dwarfed souls," while Italians threatened the cities with "their coarse peasant philosophy of sex."

These strangers, and many others, all brought depraved practices to America. In resisting the moral dangers—or more accurately, in flailing at the stereotypes—Americans compromised their liberal principles. The real danger lay not in bad men but in bigoted reactions.

Which brings us to race. Nowhere has the tension between rights and morals been more intense. From the slaveholding start, white Americans justified racial suppression by imagining a black immorality that had to be controlled. Powerful stereotypes reasserted themselves across American history, both before and after the Civil War. The most troubling aspect of the new moralizing is the old racial imagery lurking just below the rhetorical surface. In many ways, the contemporary imagery of an immoral "other" recalls the racial constructions that swamped American liberalism with Jim Crow laws a century ago.

Political scientists usually tell the Jim Crow story by analyzing its politics. Congress repealed the laws that implemented the Civil War amendments (1893); the Supreme Court accepted segregation (with *Plessy v. Ferguson*, 1896); the southern states held conventions that put the Jim Crow laws into place (1895-1905). What is far less often observed is how these maneuvers rested on moral stigma.

White southerners constructed an image of the former slaves as morally unprepared for freedom. The calumny included a standard roster of vices—laziness, dishonesty, thieving, political corruption. But the heart of the matter, endlessly repeated, was the supposed sexual lust of black men. In his popular history, *The Tragic Era*, Claude Bowers reported the prejudice as fact: "Rape is the foul daughter of Reconstruction." As Bowers told it, the story ended happily, virtue triumphant. When "the Klan began to ride . . . white women felt some sense of security."

The illiberal stereotype of dangerous, immoral African Americans gained wide currency—in the North as well as the South, in academic history, social science, and popular culture. All elevated the fiction of black lust (and the necessary discipline imposed by beleaguered whites through organizations like the Ku Klux Klan) into the standard historical narrative.

An almost hysterical portrait runs through the popular culture of the period. One scene from Thomas Dixon's best-selling *The Leopard's Spots*, set in 1865 but published in 1902, illustrates the point. The daughter of a heroic Confederate veteran is getting married. Suddenly, a group of burly black men in federal army uniforms (their eyes red with lust, all the power of Washington backing their depravity) burst in upon the wedding party. They seize the terrified bride and carry her off into the woods. The young bridegroom proves his manhood—he grabs a rifle and shoots his wife in the head before the black men can do the unspeakable. The father is overwhelmed with gratitude. "You

saved my little gal. I want to shake hands with you." Repeating the same line as historians like Bowers, Dixon portrays the Klan as heroic defenders of white virtue. His *The Clansman*, written in the following year, was the basis for D.W. Griffith's celebrated 1915 film, *The Birth of a Nation*.

But don't we face an unprecedented moral crisis? No.

Progressive social scientists, their heads stuffed with misapplications of Darwin, repeated and enlarged the stereotype. Frederick Hoffman, a German-born actuary (and therefore, he avers, without prejudice on race matters), comes to the following conclusion in his highly influential *Race Traits of the American Negro*: "All the facts prove that a low standard of sexual morality is the main and underlying cause of the low and anti-social condition of the race at the present time." And how does Hoffman measure this low standard of sexual morality? "The rate of increase in lynching may be accepted as representing fairly the increasing tendency of colored men to commit the most frightful of crimes." He concludes with a stern warning: "Intercourse with the white race must absolutely cease."

Hoffman was no marginal figure. A book review published by the American Negro Academy in 1897 called *Race Traits* the most important book on American race relations since *Uncle Tom's Cabin*. As chief actuary for Prudential, Hoffman defined African Americans as uninsurable risks. Two decades later he would help lead the first great fight against national health insurance.

There were, of course, voices on the other side. African Americans struggled to answer the critics in conferences, monographs, and books. They told the story of free men and women struggling to make new lives for themselves after the Civil War despite violence, poverty, and repression. W.E.B. Du Bois, for example, took on historians like Bowers directly in his extraordinary *Reconstruction*, published in 1935. But as Du Bois lamented, his colleagues politely ignored his revisions. To the American majority, real African Americans were invisible, hidden by scary fables about "low standards of sexual morals." Americans set liberalism aside and constructed their apartheid.

The great twentieth-century civil rights movement should be read in the same moral context. It was more than a battle about southern institutions. It was a religiously inspired movement that drew on a very different American moral tradition and forced white Americans to revise their racial images.

Now the old stigmas are back, revived by the latest round of culture wars. They glint through contemporary stereotypes about crime, welfare, teen pregnancy, and underclass immorality. Amid a renewed crusade against vice, old racial images reintroduce a prefabricated racial "them."

American cities have always gathered young toughs of every nationality and color. Now, a growing literature runs criminals together with poor people, turns them black, and dubs them a menacing underclass—the ultimate amoral them. Incredibly, the construction stands for an entire race. In *The End of Racism*, Dinesh D'Souza blurts out what most of his colleagues have the wit to remain mum about: It is entirely rational for city dwellers to treat all black men as threatening members of an immoral and predatory underclass. For "taxidrivers, storekeepers, and women," writes D'Souza, "the prejudice is warranted. In this context, a bigot is simply a sociologist without credentials." Finally, "discrimination today is . . . based more on reality than on illusion." The formula is familiar. Construct a stereotype, project it onto an entire group, take protective action.

What we get is injustice and illiberality. Take, for example, what may be the most active battle line in the contemporary morality crusades, the war on drugs. African Americans constitute 12 percent of the population and an estimated 13 percent of American drug users. They account for 35 percent of the arrests for drug possession, 55 percent of all convictions for drug possession, and a whopping 74 percent of all prison sentences. A staggering

number of young black men pass through the judicial system (read, jail) as a consequence of the drug war and its biases. The effect is to clear the city streets of young black men (and tough mandatory sentences will keep them off the streets).

To be sure, drug abuse is a terrible problem, although by most indicators, alcohol causes more damage—more days lost from work, more violence, more death. Come to think of it, everything we hear about drugs, our great-grandparents once heard about alcohol. Drinking too was a depraved practice pushed by greedy men who wrecked lives and families among the dangerous classes while threatening the children of the better classes with addiction and misery. But today alcohol is a medical problem. In contrast, illegal drugs perpetuate the old urge to rest societal problems squarely on the shoulders of sinful people making foolish and immoral choices.

There is still the terrible carnage of the drug traffic itself. Does the solution lie in following the alcohol approach—legalize drugs and redefine drug abuse as a medical problem? James Q. Wilson suggests that the result might well be "less crime," "fewer gangs," and a "more straightforward public health approach" to the problem. Even so, he opposes the idea. Why? Because, writes Wilson in *Drugs and Crime*, "the government has the obligation to form and sustain the character of the citizenry."

Perhaps Wilson is right. Legalization is certainly not a simple answer. And replacing our punitive approach to addiction with a more medically oriented one is more easily called for than accomplished. But note how our allegedly secular, amoral society places drug legalization off the policy agenda. Few politicians could get away with so much as publicly weighing the pros and the cons about fighting our most important moral fight. And so we are left running in an unhappy circle: The demilitarization of the drug war is off the table because the state should set a moral example and shape the character of its citizens. But the government's enforcement system is deeply biased—13 percent of the users supply 74 percent of the inmates. And programs that might offer alternatives, expand economic opportunities, and promote social justice are derailed partially by the pervasive, biased stereotypes about crack heads and criminals.

Of course, there is an entirely different side to the American racial story. The flourishing of black artists, writes Henry Louis Gates, Jr., "may truly be the renaissance to end all renaissance." And never mind the alleged underclass. Carol Stack's lyrical *Call to Home* portrays profoundly stable family networks stretching across generations, reaching from northern cities to southern roots. She pictures communities of sophisticated urbanites and their rural kin struggling with wisdom and patience against poverty and racism. In a book soon to be published by the Russell Sage Foundation, Kathryn Edin and Laura Lein offer a striking portrait of hard-working urban welfare recipients struggling to get by in *Making Ends Meet*. They join an already large and growing pile of books and articles that expose the bigoted racial stereotypes for what they are.

These eloquent accounts are so hard to hear because they are drowned out by the moralizer's message. As long as the American master narrative is one of declining values and a threatening amoral them, it is difficult to see real fellow citizens through the images of misbehavior and predation. It is precisely this framework that takes a relatively small program like Aid to Families with Dependent Children and blows it up into 40 million indolents lounging in a cart while the rest of us push hard to give them their ride. (*USA Today* featured this bromide from Senator Phil Gramm as a front-page explanation of the 1994 midterm election results.) The patient responses that fill journals like *The American Prospect* with charts and tables are swamped by the larger image of sinking values, moral depravity, and the irresponsible them.

Moral Troubles

But don't we face an unprecedented moral crisis? No. And constructing our policy problems as moral meltdowns make them far more difficult to address.

Start with violent crime. The most reliable statistics are for murder (which unlike, say, spouse abuse, is tough to hush up). Yes, the murder rate is high. In 1995 it was double the rate of 40 years earlier. Murders in New York City are up more than 500 percent since 1960. While other crimes are more difficult to track precisely, they roughly shadow the homicide rate. And according to some analysts, the rise in random violence, like drive-by shootings (instantly flashed in our faces via television), amplify popular anxiety about public order.

Yet the picture of a predatory class awash in ever more violence is misleading. The murder rate

last year was precisely what it was 25 years ago—and down 10 percent from the peak in 1980. The murder rate was higher in 1933 than it is today. (And talking about social pathology, the 1933 rate included 28 lynchings.)

The language of looming crisis and lost control are all long-standing features of urban life. Fear of the dangerous classes marked each stage in the evolution of the urban political economy. Abraham Lincoln warned in 1838 of the "outrages committed by mobs" and "the increasing disregard for law which pervades the country." A half century later, Dewitt Talmage, a celebrated nineteenth-century preacher, put it this way, "Boys and girls will play *in the streets . . . without police protection*" only when Christians take up arms against "the sins of the city." Crime waves, crime panics, and cries for our lost morals are as old as the cities.

Instead of sermonizing and demonizing, a sensible policy would focus on both punishing criminals and addressing the causes of crime—"tough on crime, tough on the causes of crime," as British Labor leader Tony Blair puts it. Perhaps some liberals and progressives were queasy about punishment in the past. But most now recognize that crime makes life in poor neighborhoods especially difficult. That, after all, is where most of the victims live. In *Labor of Love, Labor of Sorrow*, Jacqueline Jones quotes one black woman on raising her family in Washington, D.C., during the 1920s: "I have lived here long enough to know that you can't grow a good potato out of bad ground. This sure is bad ground."

A sensible crime policy also has to address a vast array of underlying causes that run a wide policy spectrum. First, there is the sheer firepower available in America: lots of guns, faster guns, more powerful guns. Almost three million handguns were manufactured and marketed in the U.S. in 1993. Second, it is time for a sustained, national reevaluation of the war on drugs. Our public policies have succeeded in making them scarcer, more expensive, and ironically more lucrative (though wealth is an illusion for most of the young men in the drug business). Third, we face the still more difficult problem of declining demand for unskilled labor. Job growth has always been cyclical, but the postindustrial economy wipes out a major traditional track out of poverty. (And as articles in this magazine have repeatedly demonstrated, the Federal Reserve's crusade against inflation successfully chokes off job growth before employers are reduced to calling on the long-term unemployed.)

The features of an enlightened crime policy stretch on—better education, job training, urban infrastructure, a decent minimum wage. In the long run, these are the kinds of reforms that create a safer and more just society. But the moralizers' message—the resurrection of the dangerous, depraved, urban them—pushes these possibilities right off the policy agenda.

Well, what about sex? The preachers positively wallow in their denunciations of the pelvic sins—and here the academics gnash their teeth as loudly as the fundamentalists. The jeremiads all begin with the same premise: We are reaping the bitter harvest of the permissive 1960s culture. But the moralizers disagree on the consequences. Reading from political right to left, we get denunciation of homosexuality, abortion, promiscuity, illegitimacy, teen pregnancy, the collapse of marriage, and kids without dads.

Amid these hot-button issues, one theme gathers broad support: traditional families. Alarm is spreading about the growing number of children being raised by a single parent. The 1990 census puts the figure at 28 percent of all children and 60.6 percent of African American children, up from 21.5 percent and 51.9 percent respectively in 1980. Even sensible moderates gulp hard at those numbers. Surely, concludes the conventional wisdom, this is a genuine moral crisis. Or is it?

Today, divorce is the largest factor, accounting for 40 percent of all the single-parent households in 1990. We live in a "divorce culture," writes David Blankenhorn in his widely cited book *Fatherless America*. Marriage, according to Blankenhorn, has become "old fashioned, beleaguered, even quaint—a way of life primarily suitable for older or boring people." Somehow, we have got to seize our norms and restore the old marriage culture. But according to the 1990 census, more than 79 percent of the households include a married couple, down undramatically from 82.5 percent a decade earlier. Divorce culture? Hardly.

Yet look at the familiar political result. Once again a large, righteous, properly married audience is primed to tsk at (and regulate) the immoral minority that threatens the social order with its promiscuous behavior. Michigan Governor John Engler has gotten the policy crusade rolling with a

proposed law that makes divorce more difficult. Supporters of such laws rest their case on a simple maxim: Divorce is bad for kids.

Of course, not all marriages work and not all families are good for children. The new proposals dust off the old divorce loopholes—alcohol, drugs, cheating, physical abuse, mental abuse. Count on prolonged arguments about what exactly constitutes mental cruelty these days. Defining mental abuse points to the buried question that lies at the very heart of the issue: What is a proper family? What is the social institution we are trying to revive?

Beneath the clamor for getting both parents under the same roof lies the agitated matter of how the family ought to be organized. Consider the range of strongly felt contemporary views. On the one side, conservative Christians insist that "a woman's call to be a wife and mother is the highest calling." Reverend Jerry Falwell spells out the implicit organizational chart. God intends "the husband . . . to be the decision maker. . . . Wives and children want to follow." For some conservatives, men who cook dinner or women who pursue careers are violating divinely ordained gender roles. Across the cultural spectrum, the organizing statement of the National Organization of Women offers a different perspective: "A true partnership between the sexes demands a different concept of marriage, an equitable sharing of responsibilities of home and children and economic burdens." And still further along on the American cultural spectrum, Heather has two moms.

What has happened is a lot more complex than the images of rampant promiscuity imply. Rather, we have lost our consensus about the nature of the family—or, more precisely, about the nature of the women's role. Nor is this a bad thing. The halcyon days of stable marriage featured dependent women without significant career options or the real prospect of supporting themselves. It is far easier to bar the marriage door when one member of the couple is subordinate and dependent, without any meaningful exit option.

This does not mean giving up. By all means, let us find ways that encourage stable marriages and strong parenting. Change the tax laws. Strengthen the support services that help parents. Mend our communities. But remember that the forces moralizing for marital commitment strongly disagree about what a good marriage is. And the golden era they recall was structured on an inequity that is, happily, fading.

Moreover, trying to lock people into marriage without addressing the root causes of marital breakup is likely to undermine the institution itself—more couples delaying marriage, declining marriage, and departing marriage without a formal divorce. Ironically, it is apt to push the rest of society toward the patterns that dominate the African American community: mothers who never got married in the first place.

Turning to black families switches the focus from divorce to out-of-wedlock births. Fifty-one percent of one-parent black families are headed by moms who never married. Only 21 percent are divorced, compared to 28 percent never-married and 40 percent divorced across all races. The obvious question is why? The obvious answers are wrong.

The stereotype pictures a soaring rate of children bearing children encouraged by overly generous welfare handouts. But there is scant evidence that welfare benefits explain many sins: States with low benefits do not have appreciably lower rates of separation, divorce, or out-of-wedlock births. More important, pregnancy and birth rates among young black teenagers have actually declined. The pregnancy rates fell 13 percent for African American women between 15 and 17 years old in the two decades following 1970. Ironically, condemnation has been shrillest while teen pregnancy rates have declined.

Nor should we idealize past purity. In her Pulitzer Prize-winning *A Midwife's Tale*, Laurel Thatcher Ulrich computed the percentage of first births conceived out of wedlock in and around Hallowell, Maine between 1785 and 1812. The result was a myth-popping 38 percent.

Still, out-of-wedlock births are high and growing as a proportion of all births among African Americans (in part because births among married women have declined). More careful recent analyses point to a series of structural causes of the rise in out-of-wedlock births: the great migration to the urban north; the lack of "marriageable males" in the black community (according to William Julius Wilson, there are 84 black men for every 100 women in the black community, compared to 99 per 100 among whites); and the relatively greater economic power black women have in their relations with black men (partially because of high unemployment among black males).

However, even sophisticated analyses often

overlook the women themselves. As Adolf Reed commented in a review of William Julius Wilson's *The Truly Disadvantaged*, women in the inner city have devised a "network of organizational and institutional forms" that "create meaning and dignity in lives bitterly constrained by forces apparently beyond their control." Their marriage and child-bearing choices are part of that struggle for meaning and dignity. This is not to say that these decisions are always ideal, but neither hectoring them with sermons nor using public policy to punish them is likely to create strong two-parent families.

What about the kids? Precisely the right question. How do we improve the lives of American children? The real answers involve sustained commitment to improving education, health care, housing, and child care; training and decent wages for parents; jobs and institutional infrastructure for communities. As a society, we went a long way to improving the life chances of our children's grandparents—the poverty rates among the elderly have declined dramatically in the past generation. The question is how to do the same for children. Addressing that question may go a long way to solving the dilemma of single parents.

The chances of succeeding at any of this are not improved one whit by the morality project. On the contrary, we will not mend our imaginary community nor restore a more generous, universalistic public spirit until we put aside the images of an immoral, unvirtuous them.

Alternative Gospels

Contemporary moralizing lays the burden for American troubles squarely on the shoulders of troublesome Americans. There is an alternative to this emphasis on corrupt individuals

Throughout American history, religion has inspired reformers to fight against legal and economic injustice—to fight for individuals. Moral crusades rouse Americans to expand rights, overcome biases, attack inequity.

The paradigmatic cases are familiar: abolitionism after 1830, the women's movement in the second half of the nineteenth century, the civil rights movement of the twentieth century. Each invoked a higher morality to challenge exclusion and injustice. But perhaps this different kind of moral crusade is most clearly illustrated by a less familiar case.

At the end of the nineteenth century, the social gospel movement self-consciously emphasized the moral responsibilities of the powerful toward the poor. Those who profited from the new economic order were accountable for the burdens it placed on their workers. As Walter Rauschenbusch, the best-known author of the movement, put it: "During the great industrial crisis in the '90s, I . . . could hear virtue crackling and crumbling all around. If anyone has a sound reason for taking the competitive system by the throat in righteous wrath, it is the unmarried woman and the mother with girls." Drawing on religious imagery and language, Rauschenbusch scorched the inhumanity of "our industrial machine" for the moral pressures that it put on good men and women.

Charles Sheldon's *In His Steps*, an extraordinarily popular novel of the same period, pictured how a midwestern town (Topeka, Kansas) would change if all its leaders were guided by the simple question, "What would Jesus do?" There is plenty of silliness throughout the book. But Sheldon imagines the business leaders of the Gilded Age getting religion and running out to meet their workers—to shake their hands and listen to them with respect.

The sinking feeling one gets trekking across the tomes and the tapes of the contemporary morality project comes from the complete absence of even this (rather feeble) social vision. The poor ought to learn to give back to society—more church and less crime, more discipline and fewer delinquents. But rarely a word of how the society and its rules might be biased. Not a hint of going out and listening to the workers with respect—much less helping them struggle with the dislocations of economic transformation.

Despite the thunder, American spiritual life is not going to hell. What all that moralizing does is to organize American rhetoric against social justice, against progressive politics, against national community altogether. In an era when many poor Americans struggle extraordinarily hard, the preachers blame them for their own poverty, turn them on one another, turn Americans against themselves.

The story of moral depravity is well worn. Americans have survived their own unprecedented wickedness—many times. The moralizing routine was already old when the Synod of 1679 published its list of sins. The real threat is not moral decline. It is what Americans do to their own society in the name of arresting moral decline.❑

REWARDING WORK

FEASIBLE ANTIPOVERTY POLICY

BY BARRY BLUESTONE AND TERESA GHILARDUCCI

Virtually all economists who have studied the changing income distribution have confirmed what nearly everyone else knows. For most Americans, living standards are stagnating and becoming more unstable. For the bottom half, income is falling. And the prime culprit is not shifts in family values or the work ethic, or even changes in taxes and social benefits. Most of the problem is the erosion of wage and salary income.

The causes are multiple [see Bluestone, "The Inequality Express," *TAP*, Winter 1995], but there are proven methods for cushioning the impact by raising incomes at the bottom and providing "wage insurance" for those at risk. Chief among these are the minimum wage and the earned income tax credit (EITC). The two fit together like jigsaw puzzle pieces. Each has an inherent weakness—but the weakness in one is precisely the strength of the other. The problem is that the real value of the minimum wage is shrinking and the EITC is under attack.

THE FATE OF AMERICAN INCOMES

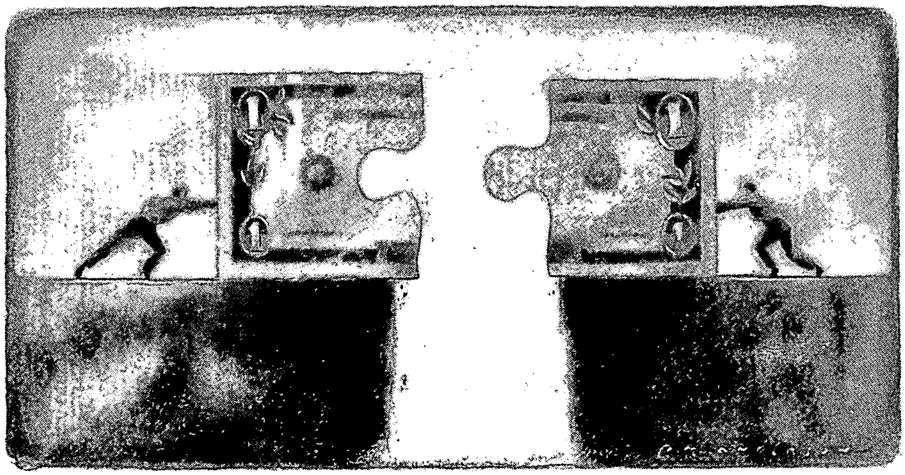
Between the end of World War II and 1973, inflation-adjusted average weekly wages for non-supervisory employees rose by 60 percent, while real median family income, boosted by the growth in female labor force participation, literally doubled. Those in the bottom quintile of the income distribution saw their incomes rise by no less than those in the top. Such a benign climate ended in 1973. Since then, average weekly wages have fallen by nearly 20 percent and median family income has not improved beyond the level achieved more than two decades ago.

According to Gary Burtless of the Brookings Institution, between 1973 and 1993 the average income available to the bottom quintile fell by nearly 23 percent—from $17,601 to $13,596 per year for a family of three (in 1993 dollars). A small portion of this decline was due to cutbacks in means-tested transfer programs such as welfare. A bit more was due to reductions in the value of private pensions. Yet the largest source of decline, amounting to 60 percent of the total income loss, was a reduction in the earnings of either the head of household or other household members.

As incomes of the bottom fifth of the population have fallen, poverty has naturally increased. As a nation, we made sizable inroads against poverty during the 1960s and early 1970s due to strong sustained growth in the economy, low unemployment and high labor bargaining power, increases in transfer programs, and the billions of dollars spent as part of the War on Poverty. Between 1960 and 1973, the proportion of individuals living below the official poverty line fell by half, from 22.2 percent to 11.1 percent. But then the war stopped. By 1993, the poverty rate was back up to 15.1 percent.

The newly poor, however, were not the same as the old poor. In 1970, 40 percent of the poor were children and 19 percent were elderly. Thanks to the expansion in Social Security and Medicare, only 10

percent of the poor today are age 65 or older. The proportion of the poor who are children has also declined slightly, to 38 percent, because of declining birth rates. As a result, nonelderly adults comprise an absolute majority (52 percent) of all poor persons in the nation. This may be the first time since the era of Charles Dickens that the majority of the poor are not the young, the old, or the infirm, but prime, working-age adults. While conservatives may target a breakdown in family values as poverty's chief culprit, the data suggest otherwise. The main cause is falling wages and diminished employment opportunity.



These trends will only intensify if "welfare reform" compels single mothers to seek paid employment. Thirty years ago, single-parent families headed by women made up less than one-fifth of all impoverished households in the country. Today they make up nearly one-half (47 percent) and therefore the welfare-to-work strategy, in either its more gentle White House guise or its harsher congressional form, will impact millions of the lowest-income families in the nation.

If we push welfare mothers into paid employment without raising wages and benefits, the main effect will be to increase the already large proportion of the poor who currently work for their poverty. In 1989, three out of four poverty households had one or more workers in them while nearly 70 percent of all poor prime-age adults—those between the ages of 25 and 54—did some paid work during the year. Three out of every ten of them worked year-round, full time—giving the lie to Thomas Carlyle's remark a century ago that "work is the grand cure of all the maladies and miseries that ever beset mankind."

Families permanently trapped on the lowest rungs of the income ladder are not the only ones in economic trouble. Job and income instability is becoming "democratized" as a direct consequence of ongoing corporate restructuring that targets professional and white-collar workers for layoffs along with the traditional blue-collar rank and file. Economist Stephen Rose, currently at the U.S. Department of Labor, estimates for the 1970s that 67 percent of men had a "strong attachment" to their firm. They made at most one change in employer during the decade. Such strong company affiliation dropped to only 52 percent in the 1980s. Weak attachment—changing employers at least four times in a decade—doubled from 12 percent to 24 percent. Rose finds that such high employment turnover—presumably dominated by layoffs rather than quits—leads to disrupted career paths, in turn resulting in lower average earnings. For a not insignificant number of families, the loss of a job plunges a family at least temporarily into the ranks of the poor or near poor.

All of these statistics suggest that we have built poverty into the very fabric of the American labor market. In such an economic environment, there is a critical role for public policy designed to boost wages and improve income security. Here is where raising the minimum wage and protecting the EITC come into play.

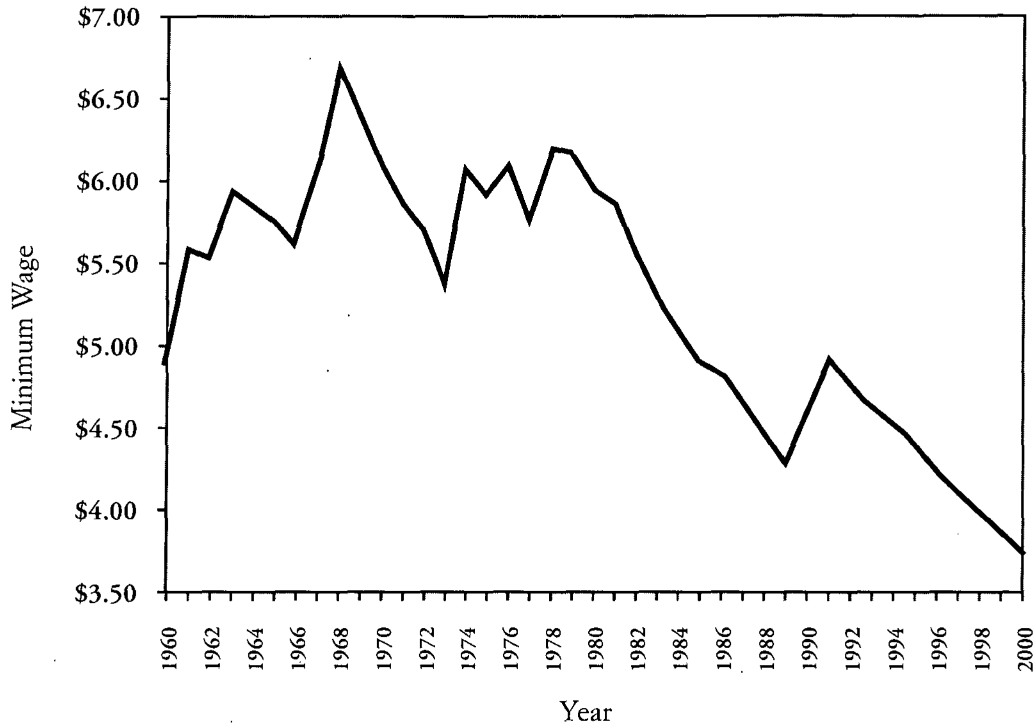
Fighting Wage Poverty

The federal minimum wage dates to the Fair Labor Standards Act of 1938. In his second inaugural address in 1937 preceding the introduction of this legislation, Franklin Roosevelt called on Congress to help the one-third of Americans who were "ill-housed, ill-clad, and ill-nourished." The original minimum wage of 25 cents per hour helped, but it was only sufficient to raise a worker's earnings to the point where it would, using today's standards, support a family of three at 46 percent of the poverty line.

After World War II, as real gross domestic prod-

A MINIMAL WAGE

Real value of the minimum wage, 1960-2000 (in 1996 adjusted dollars)



Source: Economic Policy Institute (1996)

uct (GDP) increased, the federal government improved the minimum wage regularly to make sure the poorest workers would share in the general prosperity. Between 1950 and 1991, Congress raised the wage floor 14 times. At its peak in 1968, the $1.40 per-hour minimum represented—on a full-year, full-time basis—118 percent of the poverty wage for a family of three.

In the 1970s, however, inflation began to outrun the minimum wage. Despite periodic increases in the statutory rate, none was large enough to maintain the minimum's real value. By 1995, a full-time worker on a minimum-wage job could earn only 72 percent of the income needs of a three-person family living at the poverty line. [See "A Minimal Wage," above.] According to New York University economist Edward Wolff, if the minimum wage had kept up with inflation since 1965, it would exceed the current earnings of fully 30 percent of American workers. Nearly one out of three American workers is presently toiling for an inflation-adjusted wage that would have violated the Fair Labor Standards Act 30 years ago.

Real wages have fallen so far during the past 20 years that, according to the Economic Policy Institute (EPI), raising the minimum wage to just $5.15 an hour from the present $4.25—as President Clinton has recommended to Congress—would directly affect more than 12 million workers who now earn between the current minimum and the proposed one. In addition, because firms try to maintain wage differentials between groups of workers, workers just above the minimum typically benefit as well. EPI estimates that nearly nine million additional workers currently earning between $5.15 and $6.14 an hour will see their wages rise by an average of 10 percent. Together, then, more than 21 million workers—one out of six in the U.S. workforce—would see their wages improve over the next two years if the Clinton wage floor were adopted.

Contrary to propaganda by employer groups, almost three-fourths of these workers are adults; only 25.6 percent are teenagers. Nearly three-fifths are women, whose families are disproportionately

in poverty. Over half of all workers who would benefit from raising the minimum wage to $5.15 an hour are found in the poorest 20 percent of all families. Well over two-thirds work in retail trade and services; only 10 percent work in manufacturing where the threat of low-wage international competition may increase if the minimum is raised.

As good public policy, the minimum wage has at least four things going for it. First and foremost, it is a way to increase workers' earnings without placing any burden on the taxpayer. It does not add a penny to the federal deficit. If anything, it decreases the deficit by boosting income tax revenue and reducing welfare payments. Second, it provides increased income to workers who do not qualify for government transfer programs or tax credits. Third, it is an incentive to work in the "above ground" economy rather than in the "underground" economy where wages are often higher than the federal minimum. Fourth, and by no means least, an increased minimum wage may well lead to higher productivity in the economy. At current wage levels, there is little incentive for low-wage employers to introduce new technology or find other ways to boost the output of their workforce. Required to pay a higher wage, firms would have an incentive to find ways to use their workers more effectively.

Despite these advantages, economists' support for mandated minimums has been tepid at best. The minimum wage is viewed as a double-edged sword, boosting wages on the one hand, but forcing employers to reduce employment on the other. Teenagers presumably bear the brunt of minimum-wage-induced job loss, being the least skilled and most expendable in the labor pool. Until recently, empirical research appeared to confirm the economists' concern. A battery of studies during the 1970s and early 1980s concluded that a 10 percent increase in the federal wage floor typically leads to a 1 to 3 percent cut in teenage employment. Among adults, the effect was found to be substantially weaker, but statistically significant, in the range of 0.3 to 0.7 percent.

David Card and Alan Krueger, both economics professors at Princeton University, have carried out meticulous "micro" studies that suggest that in the real world of fast food restaurants and other low-wage employers, modest increases in minimum wages have no negative impact on employment levels. Their results have been attacked by some traditional economists, but none of Card and Krueger's detractors have fundamentally undermined the findings. [See John Schmitt, "Cooked to Order," page 82.] Evidently, there is sufficient slack in the relationship between wages and employment levels—especially in industries not subject to international low-wage competition—that employers either absorb the higher minimum wage in slightly lower profits or find productivity improvements to justify the higher wages, rather than compensate by laying workers off.

Yet even if the new Princeton studies are ignored and we fully accept the critics' estimates of an unemployment effect, it would not constitute much of a case for rejecting a higher minimum wage. Virtually every low-wage worker benefits from a higher minimum wage even if there is an aggregate labor displacement effect. Because of the high job turnover rate among teenagers in particular, and low-wage workers in general, no single individual bears the full burden of unemployment. A recent study of working welfare mothers by the Institute for Women's Policy Research, for example, shows that they change jobs on average every 14 months. Those who benefit from a boost in the federal wage floor share both the higher wages and a portion of any induced unemployment. In the case of the Clinton proposal, the typical working teenager will see his wage go up by 21 percent and—if there is job displacement as severe as early estimates make it out to be—a 6 percent decline in annual hours worked. One presumes few teenage beneficiaries would vote against a wage-job displacement deal that includes a 15 percent annual income increase in return for 6 percent *less* work! For adults affected by such an increase in the minimum wage, the 21 percent wage increase is offset by no more than a loss of 1.5 percent in annual hours worked—hardly a dent in their improved economic condition. This should vindicate the minimum wage, even without the Card and Krueger results.

But there is another criticism that makes the minimum wage less than ideal as an antipoverty remedy. It concerns what economists call "target efficiency." Only a small proportion of the poor would directly benefit from increasing the wage floor, despite the fact that nearly 75 percent of poor households have someone who works. According to estimates by Richard Burkhauser and Kenneth Couch of Syracuse University and their colleague,

Andrew Glenn of Vanderbilt, only 16.9 percent of the workers in poor households in 1991 were in jobs paying below the proposed boost in the statutory minimum to $5.15 an hour. Except for the possible indirect benefits noted above via maintenance of wage differentials, the other 83 percent of working-poor households would not be helped since their working members already earn wages above this level. Even so, according to the EPI study mentioned above, 40 percent of the gains from the proposed Clinton wage hike would go to the poorest 20 percent of working families—those with annual incomes less than $22,000 in 1993. These are clearly deserving families, even if only about half this number are below the official poverty line.

However, the federal wage floor would have to be $6.06 per hour for a full-time worker to earn enough to raise a family of three above the poverty line. Hence, most workers in poor families fall into a "dead man's zone." The Clinton minimum wage is below what they are currently making, but their pay is not sufficient even on a full-time, full-year basis to catapult their families out of poverty.

Untaxing the Poor

To assist the most disadvantaged of the working poor, an even better-targeted program is needed—the earned income tax credit. First enacted in 1975, the EITC is a refundable tax credit aimed directly at helping working-poor families with children. Its original intent was to offset a portion of the payroll tax liability of low-income families in order to reduce the regressivity of federal taxes. Being refundable, it has aspects of a "negative income tax." If the credit due a family is greater than its federal tax liability, the IRS remits the balance to the family.

The way the EITC operates is quite simple. For example, a working family with one earner and two or more children receives a 40 cent credit for every dollar earned up to $8,900. Hence, the EITC provides a maximum benefit of $3,560 (0.4 times $8,900). When that family files its Form 1040 in April, total tax liability is reduced by this amount. A check will be sent to the family if the credit exceeds what it owes. A family is eligible for the maximum credit until its total earnings from work reach $11,620. After that, the credit declines by 21 cents per dollar of earnings, and vanishes altogether only when a family's earnings exceed $28,524. For working families with just one child, the maximum credit is $2,156 and the credit "vanishes" at $25,120.

Since the EITC rewards work and not welfare, does not impose mandates on employers, and involves little red tape, even President Reagan was a great fan. In expanding it in 1985, he called it "the best anti-poverty, the best pro-family, the best job creation measure to come out of the Congress." At the time, Senator Bob Dole and Representative Dick Armey chimed in with warm endorsements.

The EITC's greatest advantage from the perspective of battling poverty is precisely the minimum wage's weakness—its target efficiency. According to Burkhauser and his colleagues, more than 46 percent of the program's total tax credit goes to families who are living under the official poverty line while 63 percent goes to families with incomes no more than 1.5 times this low income standard. Only about 15 percent goes to families with incomes 3 times the poverty line or greater—families who have relatively higher incomes but receive only a portion of their income from wages. The U.S. Treasury estimates that in 1996 more than two-thirds of the credit will go to families with income under $20,000. Hence it affects millions of families in the "dead man's zone"—those not helped by the minimum wage. For a family of four with one earner making $7 an hour and working 1,500 hours a year, the EITC fills nearly 80 percent of its "poverty gap," the difference between after-tax earnings and the poverty line.

The EITC has still another great advantage often overlooked by both its supporters and its detractors. It is a form of "family wage insurance" in an era of job instability and earnings insecurity. Stephen Rose has estimated that fully 39 percent of families would be eligible for the EITC at least one year in ten. In any one year, about one in six families is eligible for the tax credit, but over a decade, nearly two out of five families with children will have a year or more in which their wage income declines sufficiently for them to be eligible for the EITC. The EITC proves particularly useful for younger families, those hardest hit by the nation's falling median-wage rate. By the end of any given decade, more than half of families headed by individuals who are no more than 35 years old benefit from the credit. The EITC therefore serves two important functions. It is life support for the permanently low-wage worker; it is earnings insurance for the middle class.

BUILDING A LIVING WAGE

How raising the minimum wage and keeping the EITC intact helps working families put food on the table:

	Gross Earnings	After FICA Withholding	EITC Value	Total Earnings
Family 1 (one adult earner, two children)				
Current minimum wage ($4.25)/no EITC	$6,375	$5,887	$0	$5,887
Current minimum wage ($4.25)/EITC	$6,375	$5,887	$2,550	$8,437
Clinton minimum wage ($5.15)/EITC	$7,609	$7,027	$3,044	$10,071
Family 2 (two adult earners, two children)				
Current minimum wage ($4.25)/no EITC	$12,750	$11,775	$0	$11,775
Current minimum wage ($4.25)/EITC	$12,750	$11,775	$3,323	$15,098
Clinton minimum wage ($5.15)/EITC	$15,218	$14,054	$2,805	$16,859

Earnings are for persons working at minimum wage 30 hours per week, 50 weeks per year. These simulations assume a 1.5 percent reduction in hours worked as a result of raising the minimum wage from $4.25 to $5.15 per hour.

As impressive as these benefits may be, the EITC is no cure-all and has a number of serious weaknesses. For one thing, it is of no help to a large segment of the poor—unrelated individuals—and its aid to childless couples is nearly inconsequential, amounting to a maximum of $324 per year.

An even greater disadvantage, at least politically, is that the EITC is expensive from the perspective of the taxpayer. This year, the EITC will cost the federal treasury more than $25 billion and its annual cost is projected to rise to $30 billion by the year 2000 in order to keep up with inflation and population growth. It is one of the reasons why, in their zeal to balance the budget by 2002, the Republicans have targeted EITC for significant cuts despite their previous enthusiastic support for it.

A third problem is that the EITC is considered subject to abuse. Until administrative changes were made in the program last year, the so-called "error rate" for the credit was found to be extremely high relative to other IRS provisions. Some families were receiving the credit when they were ineligible; others were receiving more credit than they were legally permitted; still others were receiving less. Since there is benefit to be gained from overstating one's income at very low earnings in order to move up the EITC schedule and benefit from understating income at higher earnings levels to retain the maximum tax credit, there will always be some enforcement issue needing attention—even if it presents the IRS with nowhere near the headache of policing tax compliance among the rich.

A more serious problem is related to what might be called the "Speenhamland" effect. The EITC not only subsidizes workers, it subsidizes employers. It permits employers to keep wages low while relying on the federal government to help workers make up the difference between substandard earnings and something approaching a living wage. The British learned this lesson 200 years ago when they imposed their equivalent of the EITC in the form of the infamous Speenhamland provisions. Introduced during the first decades of the industrial revolution, Speenhamland subsidized factory wages to keep workers from starving to death. Quickly, employers realized they could drive down wages and let the government pick up the tab for their employees. By the early 1800s, Speenhamland was bankrupting local treasuries and the laws were repealed. There is a lesson here. Certainly in an era

of "privatization," one would think that "privatizing" wages should be high on the agenda. The EITC socializes them.

For this reason, the credit also has a potential adverse effect on productivity. A wage subsidy tends to reduce the incentive for investment in new technology and capital. If an employer can obtain labor for 80 cents on the dollar, why invest in labor-saving technology?

Fitting the Jigsaw Pieces Together

The conclusion should be obvious. An antipoverty program aimed at low earnings must include both an increase in the minimum wage and retention (if not continued expansion) of the EITC. The disadvantages of the one are offset by the advantages of the other.

The minimum wage has poor target efficiency; the EITC's efficiency is much superior. The minimum wage does not generate jobs and may displace some; the tax credit has no job displacement effect and might encourage some firms to expand employment. On the other hand, the minimum wage is much superior to the EITC when it comes to taxpayer cost, aiding unrelated individuals and childless families, and countering the Speenhamland and adverse productivity effects. Indeed, periodic increases in the minimum wage will over the long term actually reduce taxpayer liability under the EITC. Whenever the federally mandated wage floor boosts a family's earnings above $11,620, the credit is reduced by 21 cents on the dollar. Combined, then, the minimum wage and the EITC give us the best of both worlds—target efficiency for attacking wage poverty at reasonable public cost.

Clearly, the combination of minimum-wage regulations and the EITC makes for good antipoverty policy, especially in an era when the majority of poor people are working-age adults and job insecurity is on the rise. The chart ["Building a Living Wage," page 45] provides estimates of how much an increase in the minimum wage to $5.15 an hour in tandem with the current EITC would actually help low-income families. Take "Family 1" with two children and one adult earner working 1,500 hours per year at the current $4.25 minimum wage. At the current wage floor, this family would have a total annual income of just $5,887 (after subtracting its share of Social Security taxes) excluding its EITC. The EITC alone boosts this family's income to $8,437. Lifting the minimum wage to $5.15 an hour will raise after-tax earnings to $7,027 and total income to $10,071—even if we take into account the highest possible job displacement effect due to the boost in the minimum wage. Overall, this family's income is raised by 71 percent as a result of the higher minimum and the tax credit.

Depending on the wage rates currently earned, the number of annual hours worked, and the number of earners in the family, the gain from the minimum wage-EITC combo varies substantially. But the examples provided in the chart indicate that few antipoverty programs could be more effective.

That Republicans refuse to increase the minimum wage—and a good number have suggested jettisoning it altogether—shows neither compassion for the working poor nor good economic sense. That a number of the currently fashionable "flat tax" proposals eliminate the EITC adds substantially to the enormous regressivity of these measures.

This is not to say, by a longshot, that reliance on federal wage standards and tax credits is the ultimate answer to low wages and poverty. The social policy jigsaw puzzle has many more pieces that must be fitted together to boost employment opportunity, improve living standards, and reduce income insecurity. Fashioning a full-employment macro policy is part of the overall puzzle, as are education and training programs, community economic development strategies, increased unionization, and fair trade. But in this political era of trying to hold on to some of the gains we have made in the past, the battle for improved minimum-wage regulation and maintenance of the EITC are well worth joining with a lot more gusto than we have seen from the White House this past year.❑

FOR FURTHER READING:

David Card and Alan Krueger, *Myth and Measurement: The New Economics of the Minimum Wage* (Princeton University Press, 1995).

Lawrence Mishel, Jared Bernstein and Edith Rasell, "Who Gains With a Higher Minimum Wage," Economic Policy Institute, 1995.

Stephen J. Rose, "Long Term Eligibility for the Earned Income Tax Credit," Research Report #95-05, National Commission for Employment Policy, 1995.

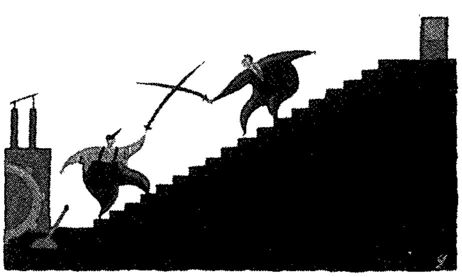
Toward a More Perfect Union

New Labor's Hard Road

BY RICHARD ROTHSTEIN

No single strategy can reverse a 20-year decline in average wages and its threat to our postwar pattern of broadly distributed prosperity. But it's hard to imagine a successful set of policies that doesn't include a revival of labor unions. With the election of John Sweeney as AFL-CIO president, and a fresh commitment to organizing, many union supporters (inside and out of the labor movement) are newly optimistic. However, the obstacles remain daunting.

At their 1954 zenith, unions represented 39 percent of private-sector workers. By 1973 when wages began to stagnate, the union share had fallen to 28 percent. Today it's barely 10 percent. A labor movement representing one worker in ten can't bargain effectively, especially when union strength has diminished in leading industries where master contracts once established national patterns. The once fully unionized auto industry now includes union-free Japanese and European transplant factories, ghost voices for wage restraint at Big Three bargaining tables. Steelworkers now work for nonunion mini-mills as well as for integrated steelmakers. Unionized UPS no longer dominates package delivery. Even in the powerful construction trades, the union share has plummeted. The declining unionization rate helps explain America's declining living standards. Not only do union jobs typically pay premium wages, but when unions are stronger, nonunion employers often improve compensation as part of their union avoidance strategies.



In 1994, the American economy added three million new jobs, while shedding a third as many in downsizings and closures—for a net gain of two million. But successful organizing drives enlisted just 72,000 potential new union members; and not all victories led to union contracts. In order to hold the current 10 percent union share of the labor force, let alone increase it, organizing victories must add a quarter million new members a year: one-tenth of the two million net new jobholders, plus some—because jobs lost in economic churning are disproportionately concentrated in union firms. To reverse the pattern of decline, union organizing rates would have to increase many times over.

The challenge is even more formidable, considering how organizing happened in the past. After a brief and fierce spurt of militant organizing in the middle and late 1930s in basic industries such as steel and autos, organizing ceased to be a priority for most unions. The labor movement coasted upward during World War II, and again after the war, partly because already-unionized sectors were adding workers. With the Taft-Hartley Act of 1947, management resumed its fight to stay union-free and never really accepted unions as social partners. Unions gave priority to defending the territory they had won and servicing existing members. When unionized sectors began to decline in the 1970s, unions declined with them. But, today few believe the labor movement can again grow simply by organizing a few small firms in expanding sectors, and then piggybacking a ride to the top as these firms rise to industrial dominance.

It has been a long time since a Democratic president was openly pro-union. The Clinton administration, like Carter's before it, is ambivalent about unions, viewing them as a handy source of money and phone banks—but not as a needed ingredient in a strategy to restore wage growth and higher "middle-class" incomes. When Vice President Al Gore was asked, at the AFL-CIO's February meetings, whether it would be a good idea for nonunion workers to organize, he refused to commit himself. The administration emphasizes labor-management cooperation, when it should be emphasizing the revival of unionism. Many congressional Democrats are no better—happily accepting union PAC donations, but too willingly diffident about saving the labor movement and the collective bargaining system.

When America's economic challenge was a perceived lack of "competitiveness" against less adversarial Japanese and European firms, it might have been reasonable to advocate reform of both union and nonunion workplaces to promote labor-management cooperation. But "competitiveness" is not our most compelling problem today. Rather, it is rising inequality and declining living standards. To halt wage decline, unions' penetration and bargaining power must grow. This requires labor law reform, not simply to make organizing fairer, but to help it succeed.

Roll Over Wagner

In the current organizing climate, management routinely violates the spirit of the National Labor Relations Act, which is designed to give workers a free choice about whether they want to seek better wages and working conditions by having a union bargain for them. The penalties for harassing and firing pro-union workers are so light and so remote that management views them as a trivial cost of doing business and a small price to pay for union avoidance. Except in the public sector, where managers less frequently mount vicious union avoidance campaigns, the legal right to organize has long been rendered moot.

Following the 1978 failure to win Senate cloture for labor law reform, AFL-CIO President Lane Kirkland and Secretary-Treasurer Tom Donahue ceased to press for legal changes to ease organizing. Instead, they romanticized "new forms of unionism," in the Dunlop Commission and elsewhere, promoting a German brand of codetermination that has little applicability to the more decentralized and adversarial U.S. labor-management climate [see Richard Rothstein, "New Bargain or No Bargain?" *TAP*, Summer 1993]. For many unionists, Kirkland's heavy political investment in the Dunlop Commission (which couldn't even bring itself to call for stronger unions) made his re-election as federation president finally untenable.

Instead of demanding labor law reform to ease organizing, the Kirkland regime wasted limited political resources on a legislative drive to outlaw permanent replacement of strikers. This goal naturally appealed to the leaders of big industrial unions who blamed the loss of some strikes on the hiring of permanent replacements. But the goal was conceptually flawed, as Caterpillar recently demonstrated when it humiliated the UAW by hiring replacement workers who were technically "temporaries," and whose hire would have been lawful even if labor's "anti-scab" bill had been enacted. An effective prohibition on permanent replacements only gives union members the right to ask to return to work, under whatever terms and conditions management sees fit to impose, after a strike has been lost. It does nothing to keep a company from winning a strike, as Caterpillar did, by hiring replacements. Labor's ranks are dwindling today not because managers can offer strikebreakers permanent jobs, but because most new jobs are not being brought into the ranks of unionism.

The new regime of AFL-CIO President John Sweeney will have to show greater interest than its predecessor in making labor law reform a priority. Likewise, liberals outside the labor movement need to appreciate the importance of reform. Expansion of collective bargaining should be understood as part of a broad strategy to raise living standards, not a self-interested program for unions. Liberals don't wait for armies of poor people to demand hikes in the minimum wage or earned income tax credit before liberals themselves propose such improvements. They don't wait for leadership from the underemployed before proposing job training or college loan programs. Likewise, liberals concerned about growing inequality should, without waiting for AFL-CIO leadership, now organize a broad Committee for Labor Law Reform, not simply as a show of solidarity with unions but because reversal of wage declines should be everyone's fight.

Reform, of course, will not become law in a Republican Congress, nor probably in a presently

conceivable Democratic one. But labor law reform should be central to the liberal platform to lay a foundation should Congress's complexion someday change, and, at the very least, to establish a climate of opinion more supportive of pro-union NLRB and judicial decisions.

And let's not be coy about the strategic goal of labor law reform. It isn't the neutral "balance scale" of labor and management rights often invoked in labor law literature. In this view, management has a right to give anti-union speeches on company time and property; unions have a reciprocal right to name-and-address lists of employees, and so on. The goal should not simply be equal rights. If reversing the decline of average wages is the objective, we need a results-oriented program to promote more union victories.

The original Wagner Act, after all, was not enacted to create a "level playing field" for unions and corporations. President Roosevelt and Congress were not saying, "Let's you and him have a fair fight!" Rather, the organizing rules enacted and enforced in the late 1930s and early 1940s were specifically designed to increase the membership and bargaining power of unions to support the New Deal goal of raising workers' wages. CIO organizers carried out an administration economic program when their leaflets proclaimed, "President Roosevelt wants you to join the union."

In the early 1950s, unions won an average of 72 percent of 5,900 NLRB elections annually, winning the right to represent over half a million new workers each year. By the late 1980s, unions were winning only 48 percent of 3,500 elections, gaining representation for only 80,000 workers each year. Routinely, worker majorities sign up for unions, only to experience wilting desire under management pressure during election campaigns. For experienced organizers, even majority interest is no longer sufficient to justify commitment of resources to a campaign, without militant leadership and a stubborn quality to worker support as well.

The labor movement's most experienced organizers generally agree that three reforms would be most helpful to boost union victory rates:

Card check. Current procedures require unions to submit to a cumbersome process in which a majority of employees vote "union" in an NLRB-supervised election, before a company is required to bargain. Management lawyers can delay voting until union supporters are replaced, or until an atmosphere of terror (created, for example, by closed-door interrogations or by company suggestions that workplaces ordinarily move if union bargaining is approved) dampens the union's drive.

Instead, once a majority of workers have signed cards, the NLRB could order bargaining—before an employer terror campaign has escalated. Card check rules apply in most Canadian provinces. Not surprisingly, de-unionization in Canada has not paralleled U.S. experience, despite similarities in other economic trends. From 1955 to 1990, Canadian union membership grew slowly from 31 percent to 36 percent, compared to a decline from 33 percent to 16 percent in the United States.

First contract arbitration. Even where unions win representation rights, victory is often prelude to defeat: no contract results. Current law requires only that employers bargain with unions, not that they reach agreement. Employers can lawfully propose to unions that wages and benefits be reduced below pre-union levels; they are prohibited only from stating that the proposal is intended to retaliate for unionization. Knowing such suggestions will always be unacceptable, management attorneys can drag out bargaining indefinitely.

Where management unreasonably delays, arbitrators could award contract provisions based on prevailing wage and benefit practices in the industry or in competitive firms, and could deny management proposals designed solely to weaken union strength—proposals, for example, to impede union reps' participation in grievance hearings.

Restricting employer campaigns. Over the last 50 years, NLRB and court decisions have progressively distorted election rules. For example, it is now customary for employer consultants to exclude from company meetings both known and suspected union supporters, assuring by this tactic that anti-union propaganda will be unchallenged and that other employees will be impressed with the apparent unanimity of employee opposition to unionization. There are many possible reforms of NLRB rules—granting union representatives access to company property during an organizing drive, prohibiting supervisors from meeting with workers to inveigh against unions during paid working hours, granting unions "equal time" to respond to employer propaganda, and so on.

Other reforms, such as making it more difficult

to fire union supporters, reinstating fired supporters more rapidly, penalizing (civil or criminal) employer misconduct, and shortening NLRB hearing and decision procedures, would all improve the atmosphere in which organizing takes place. But judged by how much they would enhance union victories, other reforms don't match the top three in importance.

New Labor: Can It Organize?

To be sure, enactment of reform is currently politically inconceivable. Yet despite legal barriers, some organizing succeeds and more could be accomplished by more creative and aggressive union leaders. John Sweeney's victorious campaign for AFL-CIO president encouraged hopes for such change, as he pledged to invest $20 million in a new organizing fund and to beef up organizing efforts with a "Union Summer" of youthful volunteers.

But by themselves, these important moves by Sweeney won't do the trick. As a federation of autonomous unions, the AFL-CIO has no worker-members of its own. President Sweeney can cajole union leaders to make organizing a priority and can offer assistance and training where his entreaties succeed. But he has little power to make more organizing happen or to make it more successful. National union presidents are elected by members (or by conventions of member-delegates), not chosen by John Sweeney. To make organizing a higher priority requires these national union leaders to redefine their political and organizational interests.

Contrary to the beliefs of many who care about union reform, a low priority for organizing cannot be cured simply by a greater dose of union democracy. In most unions, organizing has been a low priority both for leaders and for the rank and file. Organizing serves labor's long-term interests, but, in the short run, may be seen as aid for prospective members at the expense of actual ones. Industry-wide unionization, of course, helps existing members by "taking wages out of competition." But that benefit may be remote and hard to discern. We can bemoan union members' lack of sophistication, we can even blame leaders (probably unfairly) for failure to educate members about long-term interests. But their failure is, at most, one of vision, not the result of bureaucratic insulation from democratic control.

New organizing can also conflict with short-term political interests of union leaders. Some elected local leaders have little interest in seeing the base from which they were elected destabilized, disrupted, or expanded. While they may exaggerate the extent to which bases are threatened by new organizing, in this respect they differ little from local Democratic officials known to be unenthusiastic about voter registration drives—essential to Democratic presidential or senatorial campaigns but which may bring new activists and interests into a previously secure political base. In the case of local union leaders, this concern is heightened if newly organized members are ethnically different from a union's existing base. Even if not, newly organized members may be more restless and demanding than existing members for whom trade unionism has become habitual and ritual.

There is an additional concern: Union organizing is a task for zealots. Nonunion workers must be contacted when they are not at work, in evenings and on weekends. Frequently, successive organizing campaigns are in different towns, further destroying organizers' chances for normal personal or family lives. Good organizers are driven by ideology and mission and rarely last beyond their 30s.

Yet organizing jobs, accompanied (as they must be) by expense allowances, decent salaries, reasonable job security, operable cars, and more prestige than factory workers enjoy, are sometimes seen as desirable rewards by those who've spent years as line workers, then as stewards, then perhaps as local union officers. When their union hires organizers, loyalists (who fight for the seniority principle in their workplaces) may believe themselves entitled to the positions, certainly in preference to just-out-of-college kids or younger members of their local unions whose main qualifications are energy and enthusiasm. These loyalists are not opportunists—often they're truly devoted to their unions and believe in their own abilities to strengthen them by recruiting new members. But few effectively make the transition from local union leadership to organizing. If the union's organizing director emphasizes youth and fanaticism, not union experience, in filling organizing positions, it can spark resentment. Several years ago, rank-and-file delegates at a national steelworkers convention challenged a policy to hire outsiders as organizers. The protesters were defeated by a delegate majority, but the fight was the sort that most union leaders would rather avoid.

Intellectuals have habitually seen the United

Auto Workers as the prototype of progressive unionism, combining political liberalism with competitive local politics, militant Big Three bargaining, and meticulous contract enforcement. But there's been little energy left for organizing. Conscientious stewards may pay exquisite attention to seniority violations in Michigan, but fail to appreciate how absence of similar rules at European transplants in South Carolina also threatens security. When the union has attempted to expand unionization of the auto industry, it has only rarely been successful. The strike this March at General Motors' Dayton brake plants over "outsourcing" would not have happened if organizing independent parts suppliers had been a higher UAW priority—including willingness to make Big Three contract concessions in exchange for leveraged employer neutrality in those organizing campaigns. There is now new UAW leadership that demonstrated willingness to break with the past by cutting its losses to concede defeat in the debilitating Caterpillar strike. Whether these leaders can now also move the UAW to a more aggressive organizing stance will be an important test of their leadership, as well as a reflection of the effectiveness of a new "culture of organizing" in the AFL-CIO.

Union decisions to hire more organizers may require hiring fewer business agents to handle grievances and devoting less staff time to negotiations. This exacts a substantial price—more contract violations, less monitoring of speedups or health and safety violations—and leaders who make organizing a priority may face political challenge from members whose servicing needs become less urgent. A dues increase to finance organizing is always an option, but invites political opposition. That many unions nonetheless now enact such organizing-fund dues increases reflects the beginnings of a culture change within the labor movement.

In some national and union regional bodies, substantial sums could be devoted to organizing without having to rob servicing functions. Many union treasuries have grown to gargantuan proportions as investments of earlier-era dues payments generate continuing incomes no longer needed to service a membership base that's withered away. In some unions, investment income alone is now sufficient to operate the organization indefinitely, while in others, strike funds now approach a billion dollars. The capital value of union halls and headquarters buildings in appreciating real estate markets is another potential source of almost limitless organizing funds. (Labor journalist Jonathan Tasini estimates that more than $300 million in union assets are now tied up in Washington, D.C., headquarters buildings alone—labor's "edifice complex," he calls it.) Billions of dollars could be devoted to organizing if unions' political will to use their treasuries for organizing grew.

In a very difficult organizing climate, there is an understandable psychology of "don't throw good money after bad." But a strict cost-benefit analysis misses the point. Labor cannot afford not to bet the farm on acquiring new members, or it will die.

Beacons of Success

Public attention has flowed to the AFL-CIO's Organizing Institute, the six-year-old brainchild of the federation's newly appointed organizing director, Richard Bensinger, an inspiring figure whose institute has trained many hundreds of young, dedicated, and skilled organizers, recruited from college campuses and local unions alike. (The author believes the praise flowing to Bensinger is well deserved, but discloses his association and collaboration with Bensinger over more than 20 years.) The Institute has successfully recommended dozens of these to national and local unions for staff positions. Bensinger's recruitment and training budget increased to $2 million in the last year, but he still had 250 unfilled requests from union organizing directors for institute graduates.

So popular had this program become that it sometimes seemed the Sweeney-Donahue race for the federation presidency had been reduced to a competition between pledges of support for the Institute. Sweeney won the election and concluded the bidding war with a $20 million pledge. No organization, however, can expand that rapidly, and it will be several years before the federation's organizing program can effectively spend that level of resources.

In addition to recruiting and training organizers, the new AFL-CIO may put resources into coordinated campaigns of its own. But if John Sweeney's election as AFL-CIO president spurs a new dedication to organize, it will not be because he has $20 million to throw into the effort. Twenty million is a pittance compared to resources of the national unions whose charter is to organize and represent American workers. Sweeney's success can only come if he can inspire, motivate, and beg leaders in the unions themselves to reorder priorities, assume

political risks, put labor's long-term interests ahead of short-term pressures, and become an organizing force. Even if Sweeney chooses to devote his energy to this task—as opposed to the many other opportunities tempting his presidency, like lobbying for good causes or becoming a visible spokesman for American workers—success is hardly assured. But unless he makes this choice, his leadership will surely be judged no less a failure than Kirkland's.

> Successful organizing requires energy and zeal, but alone, these qualities can lead to humiliation and defeat.

There's another bottleneck. After years of lethargy, organized labor has only a small corps of experienced and tested leaders who can direct successful organizing campaigns; they number in the dozens, not hundreds. Successful organizing requires energy and zeal but, especially with the obstacles placed by NLRB restrictions, alone these qualities lead to humiliation and defeat. Successful organizing also requires strategic sophistication, a product of years of experience. It is most particularly needed in first contract fights when, in an era in which strikes aren't viable, more complex pressures must be brought to bear on recalcitrant employers. The all-too-frequent willingness of activists nowadays to declare consumer boycotts against any company whose behavior offends has cheapened the value of this particular tactic, but others remain. The most useful pressures often require little involvement from affected workers—these tactics mobilize pension-fund assets, interlocking directors, supplier relationships, and community organization. But the combination in a single leader of both the ability to inspire field organizers and the capacity to intimidate or court corporate directors is rare.

However there are such leaders, and their numbers are growing slowly. The most successful AFL-CIO organizers are not those who specialize in "new" tactics easily glamorized in liberal journals. Corporate campaigns, civil disobedience, community support, and consumer information certainly have their place in a developed organizing strategy, but they are not the main story. Model AFL-CIO organizers are mostly unheralded, operating no differently from organizers of old. Against impossible odds, they do win NLRB elections.

Tom Woodruff, for example, has built the membership of a Service Employees health care workers union in Kentucky, West Virginia, and Ohio from 800 in 1980 to 13,000 last year. He's done so by winning NLRB elections at one small nursing home or group health care unit after another, always refusing to commit union staff to a campaign unless nurses and other employees in a potential bargaining unit are sufficiently determined and militant to assume most leadership roles themselves. Woodruff's staff won't petition the NLRB for an election until a solid majority of workers have joined his union, designated their own leaders, and been trained to withstand inevitable employer assaults.

Bruce Raynor, leader of the Textile Workers' southern region, feels that, unlike Woodruff, he can't afford to respond to small units suddenly "hot" for organizing with active grievances; in soft-goods industries, small units will sooner close than negotiate union contracts. So Raynor targets large plants, scheming carefully the corporate and financial pressures he might later bring to bear to force contracts if elections are won. Years in advance of a drive, Raynor's staff builds in-plant leadership. His victories dwarf accomplishments of organizers in any other union: In 1993, for example, Raynor's staff won 12 of 13 NLRB elections they contested, and secured contracts at all but one. The following year, organizers returned to Tultex, a 3,000-worker textile plant in Virginia and site of a previous election loss. With a committee nurtured in the interim, they won representation and a first contract.

John Wilhelm, leader of organizing drives in Las Vegas hotels and gambling halls, presents another contrast to a pattern of organizing ineffectiveness. Since 1987, his union's membership has grown 60 percent (to 35,000) in Nevada's right-to-work climate, though the Las Vegas hospitality industry is growing faster than Wilhelm's union can keep up. Because much of the Las Vegas hotel growth comes from expansion of chains that already include a union hotel, Wilhelm's strategy has mostly consisted of making employer "neutrality" in future organizing drives a priority demand in contract negotiations at existing units. This requires membership mobilization and sophistication because, while rarely explicit, it's obvious that the quid pro quo for future neutrality is inevitably a

less-rich wage and benefit package for the present.

Notwithstanding Wilhelm's creative use of "concessions," the demand for neutrality is still so offensive to corporate managements that the bargaining strategy has been supported by mass demonstrations, sometimes leading to arrests, of union members; where possible, Wilhelm leverages pressure from hotels' financial stakeholders to win contracts. In an industry characterized elsewhere by minimum wages and high turnover, Wilhelm has preserved, for the time being, middle-class living standards for Las Vegas maids and casino workers.

Emergence of a few charismatic, disciplined, and tactically sophisticated organizing leaders suggests there are more to be found. There is new energy in the organizers for the Laborers, the Teamsters, and the Steelworkers. AFSCME is now conducting careful organizing drives with private-sector service workers. Certainly one cause of labor leadership's lethargy is lack of good alternative models. As models develop, more can follow their examples. While there are today insufficient mentors to whom the Organizing Institute's recruits could be apprenticed, it should not take many years to reach the point when spending $20 million on recruitment and training is conceivable.

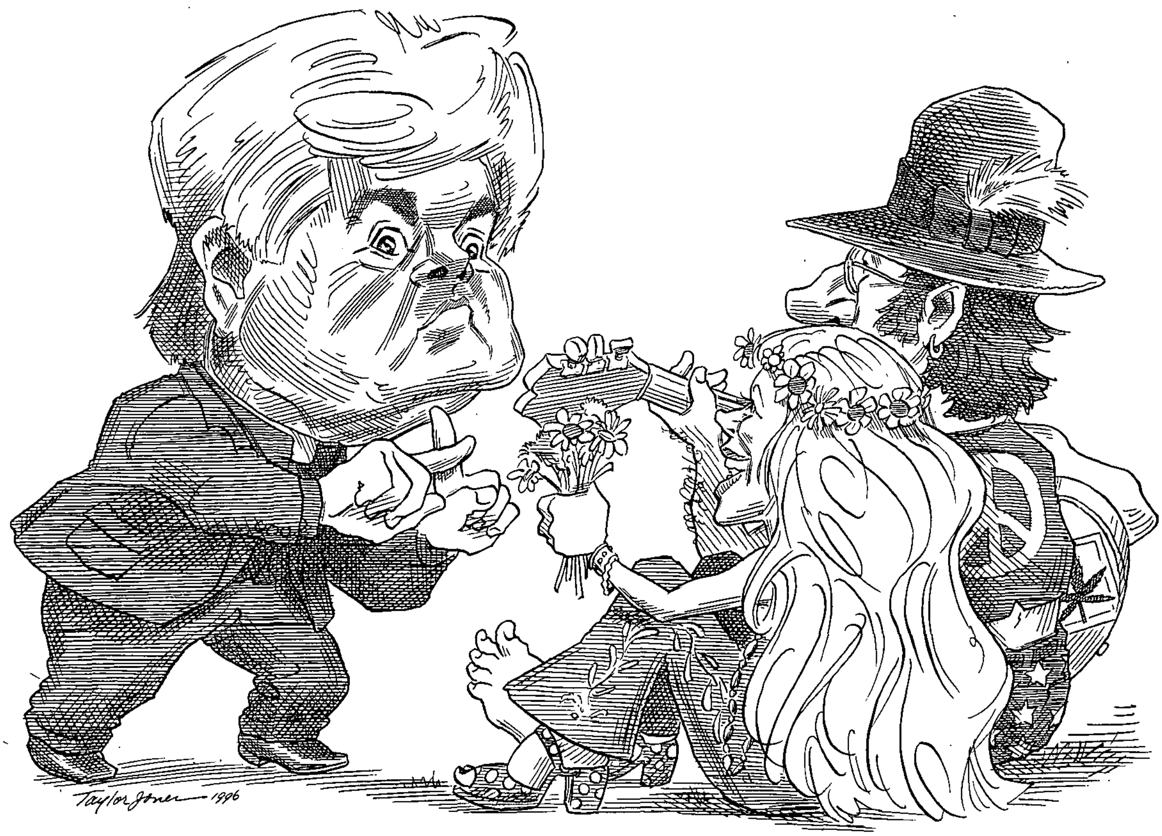
There are, of course, hundreds, if not thousands, of dedicated union leaders who presently try hard to organize but fail mostly because organizing rules are so stacked against them. As long as successful organizing requires leaders of heroic proportions, organizing will expand slowly, if at all. But rules will continue to be stacked against organizing, so slow progress is the only kind now likely to occur.

With only 10 percent of the American private-sector workforce organized, and an escalation of union organizing needed even to stem further decline, we'll not soon see union representation in the 30 to 40 percent range of two generations ago. Perhaps 15 percent is not inconceivable; any movement in that direction will contribute to renewed wage gains, higher living standards, and greater income shares for American working families. For this result, both mobilization of liberals for labor law reform, and organized labor's own redefinition of mission are simultaneously required. Liberals, however, can't wait for a better labor movement, and labor can't defer its internal transformation until liberals deliver. Both efforts must proceed on the assumption that the other is unlikely. If they do proceed in this way, perhaps modest progress is possible.❑

STRAIGHT FROM THE SIXTIES

WHAT CONSERVATIVES OWE THE DECADE THEY HATE

BY TODD GITLIN



The politics of the Gingrich revolution of the nineties are locked in a strange obsession with the politics they purport to repeal—the politics of the late sixties. House Majority Leader Dick Armey, Republican of Texas, forthrightly set out the conventional loathing: "To me all the problems began in the sixties." But the troops of the New Right are far more nourished by the sixties than they appreciate. The sixties provide the right both an evil to extirpate and a libertarian ethic to emulate.

In the words of Speaker Newt Gingrich, Ph.D., American history breaks in half in the sixties. During the years 1607 through 1965, Gingrich said not long after assuming the leadership of the House, "There is a core pattern to American history. Here's how we did it until the Great Society messed everything up: don't work, don't eat; your salvation is spiritual; the government by definition can't save you; governments

are into maintenance and all good reforms are into transformation." Then came the deluge, Gingrich continued: "From 1965 to 1994, we did strange and weird things as a country. Now we're done with that and we have to recover. The counterculture is a momentary aberration in American history that will be looked back upon as a quaint period of Bohemianism brought to the national elite"—the notorious "counterculture McGoverniks," an elite who "taught self-indulgent, aristocratic values without realizing that if an entire society engaged in the indulgences of an elite few, you could tear the society to shreds."

How odd it is that the mythic sixties remain a subject for active love and loathing may be illustrated by contrast. In the sixties, no one was pressed to take a position on the thirties. Few ran for office either vindicating the thirties or proposing to repeal them. Unforgiving Roosevelt-haters were quaint, not powerful. (In the fifties, some of the McCarthyite right did of course campaign against the communist strand of the thirties, but even they did not reject the New Deal *tout court.*) When, in 1964, Barry Goldwater so much as intimated that Social Security might be expendable, his campaign exploded. During that sinful decade, not even Marilyn Quayle, who properly reminded the 1992 Republican Convention that "not everyone [in the sixties] demonstrated, dropped out, took drugs, joined in the sexual revolution or dodged the draft" was boogying to the music of the thirties, fashioning thirties costumes for thirties parties, or (excepting Pearl Harbor, just over the edge) commemorating the great or terrible moments of that faded sepia decade.

Yet in the not very gay nineties, a president identified with those years, like it or not, has had to devote considerable energy to wriggle away from the reputation, while his nemeses vilify the sixties as the onset of the decline of civilization. The only comparable period of obsessive contentiousness in American history is the 1860s, which for decades was said to have been the time of either the Civil War or the War between the States, depending on who asked the question and where.

Everybody's Sixties

In the society of instant gratification there are many mansions. And the rebellion industry, thanks to free markets, occupies more than a few. The marketing of transgression is a tribute to a society devoted to sales and surfaces as much as it is to the particular forms of transgression popularized in the sixties. Soi-disant conservatives, denouncing semi-pornography and gangsta rap as if the corporations they love to deregulate had nothing to do with the images they loathe, are—like the rest of American culture and politics—beholden to the culture of celebrity that is one of the most enduring and least fruitful residues of the sixties.

Restorationist critics—like the self-proclaimed victims they mock mercilessly—exaggerate the enemy's conquests. After more than a quarter century of Republican ascendancy and an unprecedented rollback in the authority of the federal government, they are indefatigable when it comes to claiming past defeats and blaming them on liberals and the liberal state. The libertine thrust of American culture frightens and ignites them. Multiculturalism taps time-honored insecurity about whether the national cement shall long endure. The government, school prayers or no, is largely helpless to roll back the cultural zeitgeist, but there is plenty of political capital in demonizing "the government"—forgetting that multinational corporations also screw up, spawn private regulations galore, and exercise irresponsible power not because of the reforms of the sixties but despite them.

The truth is that everyone today, the right as much as the left, stands on the ground of the sixties. The mainstream as much as the countercurrents presuppose the cultural changes that have been lumped together as "the counterculture." Today, ponytailed ranchers rail against government regulation; anti-abortionists claim the mantle of Martin Luther King, Jr.; antifeminists leave their children at home to travel the country giving speeches or blocking abortion clinics. People pick and choose their particular sixties to savage or defend, but in either event are fatally marked by the sixties. The savagers are the sixties' shadow, the negative double of that decade, energized by its hideous memory, dependent upon it for self-definition.

Those who love to hate the sixties have run off with the unbridled individualism that was one of that decade's principal styles—and indeed the one they boast of despising. Gingrich and his supporters are obsessed with "self-indulgent values" and the culture of entitlement—but feel entitled to take any money from anyone. Their love of entrepreneurship shares

American roots with the counterculture's libertarian strain. A laptop in every lap is Gingrich's version of instant gratification. Restorationist ideas of family obligation diverge, of course, from hippie ideas, but the two, unacknowledged, do share an extravagant idea of the power of human will.

Moreover, Gingrich's legions share the late sixties' sense of extremity. The restorationists presuppose the breakdown of value consensus. They relish polarization and wildness. Gingrich's go-for-broke thundering, his absolute self-righteousness, his bombast, his refusal to honor limits, recall the double-or-nothing spirit of the wackiest part of the sixties, the part that brought us slogans like "By Any Means Necessary." Gingrich's generation of Republican first-termers, like Ronald Reagan's ideologues before them, toss the word "revolution" around rather lightly. The collapse of communism hardly left them complacent, but rather pumped up their sense that America trembles on the edge of a chasm. Thus Irving Kristol in 1993: "There is no 'after the Cold War' for me. So far from having ended, my cold war has increased in intensity, as sector after sector has been ruthlessly corrupted by the liberal ethos. . . . Now that the other 'Cold War' is over, the real cold war has begun. We are far less prepared for this cold war, far more vulnerable to our enemy, than was the case with our victorious war against a global Communist threat." The will to counterpower takes no prisoners.

Today's millenarian right, like yesterday's left, is also high on the potent drug of American exceptionalism. Yesterday, America was utterly evil; today, America has the capacity to be exceptionally good (as soon as it is liberated from the forces of evil). On both scores, America is self-evidently held free "to begin the world over again." Today it is the right that fails to recognize the sweep of social forces across modern societies. For example, it is fashionable to blame feminist overkill for family instability in America. But parochial critics fail to recognize that, from the sixties onward, divorce and unmarried cohabitation soared and families crumbled in societies where the feminist movement was weak, France and Italy for example, as well as those where feminism was strong, like the United States and Scandinavia. (Between 1970 and 1991, the divorce rate rose from 15 to 23 per 1,000 married women in the United States, from 8 to 11 in Denmark, and from 7 to 12 in Sweden. It tripled, from 3 to 9, in France, and doubled, from 1 to 2, in Italy.)

Absolutism in the defense of passions respects no political monopoly. Apocalyptic intemperateness, paranoia, a loathing of compromise, a demonization of the enemy—on the right today, as on the left a generation ago, these are more than articles of faith. The style of extremity, millennialism, intolerance of ambiguity is an operating principle, widespread and entrenched, agitating the larger number of pragmatists in the respectable political party.

Today's Christian Coalition deplores the decline of civilization as fervently as the most apocalyptic environmentalist or hippie antimaterialist of the late sixties. Right-wing activists despise Bill Clinton ("COWARD, LIAR, SOCIALIST," in the words of one bumper sticker) with a venom reminiscent of the left's fear and loathing of Lyndon Johnson and Richard Nixon—except that the damage imputed to Clinton is mainly moral and symbolic, not corporeal, except perhaps for a few murders imputed to him and his wife. Jesse Helms's comment that Clinton "better have a bodyguard" if he visited North Carolina brings to mind the sixties button, "Where is Lee Harvey Oswald now that we really need him?"—except that those who wore such buttons did not chair the Senate Foreign Relations Committee.

If anything, the countercultural spirit spawned a reaction at least as intense and consequential as the original. Not even during George McGovern's doomed candidacy did the left have the influence on Democratic policy that the right has on the Republicans. No leftist with crackpot views comparable to Pat Robertson's or Pat Buchanan's on the international (wink, wink) banking conspiracy commanded a key bloc of Democrats during the campaigns of 1968 or 1972. The resurrection of the Dixiecrats, complete with a refurbished rhetoric of states' rights—now known as block grants—has been accomplished by Republicans running against the sixties. As in the late sixties and early seventies, the major party's realists have to watch out lest their fervent far wing frighten the moderate center.

During the sixties, many of the terrible simplifiers were on the left or dwelt, like Charles Reich of the virtually forgotten *Greening of America*, in those countercultural zones where wish- and willfulness passed for insight. Today, virtually all the terrible simplifiers are on the right. Only a few desperate, unreconciled souls today embrace what is

called "the sixties" wholeheartedly, sharing with the party of repeal the belief that the ensemble of movements, tactics, images, tones, and styles were indissoluble and have to be (in a slogan of those days) loved or left. The hard core has softened. The absolutist passions of the late sixties inevitably relented in the press of practical exigency, in the flush of semi-success, or the afterglow of defeat. Despite the furies of extremity, few feminists or sexual liberationists today retain the confidence that they are cooking up a new social order from scratch. The liberationist impulse that these movements expressed when they were fresh and extravagant is beleaguered—by the rise of the right, by AIDS, by the feminization of poverty, by internal conflicts and self-doubts.

Splintered Sixties

It is also worth pausing to remember that the currents and movements of a generation ago did not dovetail. Although partisans and antagonists alike speak of a single "spirit of the sixties," there were crosscurrents and zones of confluence, tensions and interference patterns. One strand—to oversimplify—was individualist and libertarian. The Beat, the hippie, the libertine were antinomian. The maximum of personal freedom was both means and end. Expression and transgression were the name of the game. The emphasis was on private life, even if the project was to display private life in public. ("Why don't we do it in the road?") Those who placed the emphasis on the quest for personal freedom wished to gratify desire. They wanted sex, drugs, rock 'n' roll; pleasure, rhythm, emotion—and they wanted them, as the saying goes, now. The enemy was repression and control, whether internally by the superego or externally by the police. The self-sufficient individual was the beginning and the end—the law. This spirit survives today as entrepreneurship. The slogan of the *Whole Earth Catalog* was: "We are as gods and might as well get good at it." Today's god is equipped with PC, modem, and scanner. His drug of choice is electronic.

But freedom was far from the only objective that animated the sixties. The other was an amalgam of equality and fraternity—in particular, solidarity with the poor and the low caste. The civil rights movement was the seedbed, the War on Poverty a continuation, and a host of other projects from the Peace Corps to the revolutionism of the Third World, whatever their obvious differences, rang variations on the same theme. Throughout the variations, the hope was to universalize political rights; to move the grass roots closer to power; to animate public-mindedness; to reduce inequality of both class and caste; to oppose illegitimate authority in the name of a public that was the proper source of sovereignty. Individualism was suspect, value placed on cooperativeness, collective projects, and at the maximum, "the beloved community." The heroes were variously Martin Luther King, Jr., Malcolm X, Che Guevara, or anonymous Viet Cong cadres—or more soberly, Bobby Kennedy and Cesar Chavez—but not Alan Watts or Timothy Leary. Self-realization was to come through sacrifice, not the gratification of desire.

Between the libertarian and the solidarity strains, there were plenty of collisions and "contradictions," though also room for overlap. "NOT WITH MY LIFE YOU DON'T," a Students for a Democratic Society (SDS) antidraft slogan of 1967, could be applied with equal force to the Pentagon, a strip-mining company, or a battering husband. Many a sixties radical gambled that the two strands could be woven together. Frequently, at least for a while, they did make a home in the same breast. Anarchism nestled into the civil rights movement. Civil rights workers sang "Do What the Spirit Say Do" along with "We Shall Not Be Moved." The faith was that love would be the solvent of contradiction. "Make Love, Not War" was an attempt to finesse the differences. But they could never be erased. "We Shall Overcome" was not "I Shall Be Released." One pole usually overwhelmed the other, and individuals like Abbie Hoffman migrated from solidarity to libertarianism. The celebrity culture encouraged that sort of giddy, incoherent migration and a rich society rewarded it.

Even among the forces of solidarity, there were tensions over the question: Solidarity with whom? The crucial distinction was between universalist and particularist strands. Within the student movement, there was tension from the beginning between the spirit of politics for others (civil rights, for example) and the spirit of politics for selves (student power, for example). Berkeley's Free Speech Movement tried to extrapolate from one to the other. Anger at white supremacists spilled over into anger at the authoritarian paternalism of University of California

administrators, so that an activist could believe that self-liberation was tantamount to, or inexorably coupled with, solidarity with oppressed blacks. But in the end, the universalist strand proved far weaker than black-consciousness movements.

True, even the particularist currents of Black Power and its sequels carried elements of universalism. The emphasis on African American cultural difference began largely as a revolt against the inferior condition forced upon the lower caste by a system of white supremacy. Cultural separatism was fueled by longtime discriminations. If America wanted a single standard, why should it look like straightened hair and thin noses? If history was a unified story, why were the heroes of song and story so disproportionately white? But the left's racial resegregation following the civil rights movement took the solidarity motif and specialized it. Much of the black movement went off into centrifugal motion partly because they reveled in powers freshly achieved, partly because the establishment resisted further reform. Late-coming reforms are the breweries of excess.

The question that now emerged in many quarters was, To whom did one owe solidarity? Was one obligated to the whole people (or the whole world)? To the oppressed caste? To one's own group, however defined? To one's higher (or lower) self? Once civil rights had been achieved in principle, with the Civil Rights Act of 1964 and the Voting Rights Act of 1965, was there to be solidarity with all the poor, as the organizers of Students for a Democratic Society believed, trying to instigate community organizations that would federate into an "interracial movement of the poor"? Or black Americans? The whole "Third World"? One's own ethnic group? In the latter-day sixties, as the cry of Black Power was generalized, the choice was increasingly that of one's tribe, one's own people—Chicanos, American Indians, Jews, Italians, Asians, women (or at least feminists), gays. . . . The solidarity strand of the sixties left splintered into distinct identity-based communities.

The solidarities of Black Power and subsequent identity-based movements had a force and energy that the War on Poverty lacked. Identity was a motive for social commitment and action when, by contrast, economic equality had no constituency, and cross-class, cross-race, and cross-sex alignments seemed abstract. The ideal of participatory democracy, with its decentralizing, anti-authoritarian thrust, failed to get generalized very far outside the precincts of the academy. SDS's small community organizing projects of the mid-sixties were slow to overcome the despair and divisions of the poor, and before they could get very far, were derailed by the imperative to organize against the Vietnam War. In the nature of the case, student movements are not well primed to focus on campaigns for such universalist goals as health care, affordable housing, or living wages. They have little interest in the economy at all. Meanwhile, the unions were fatally compromised by their support of the Vietnam War.

A final sixties schism is worth recalling—the sixties' love/hate relationship with government. The reformers of the sixties who looked toward solidarity and equality viewed government as a necessary instrument of redress, if ambivalently. They were often angry at its bureaucratic habits, its alliance with machine politics, its capture by elites. But in the end, there was no other engine of redistribution, no other machinery to enforce rights. Again and again, a grassroots movement representing out-groups looked to government. So did Nader-style consumer movements and stockholder reform campaigns looking toward democratic control over corporations. Yet, in an era when government meant the Vietnam War, J. Edgar Hoover, the betrayal of the Mississippi Freedom Democratic Party, and the Daley machine, sixties radicals never entirely trusted government. Government meant authority in an anti-authoritarian decade—draft boards and phone taps and snoopy caseworkers. Government meant legislative compromise in a decade of absolutes.

Here is where the right astutely ran off with the libertarian strain of the sixties. The crippling irony is that one of the strongest legacies of sixties movements is distrust of the very government, however "reinvented," that used to be liberalism's preferred vehicle for reform. Gingrich's legions give no credit to the New Left critique of centralized power when they claim it for Republicanism. When Republicans claim they want the poor to make their own decisions rather than suffer the whims of Washington bureaucrats—never mind that these are precisely the bureaucrats who would have to enforce any serious campaign against discrimination in housing, jobs, and lending—this is exactly the program of the New Left in the sixties, which believed that

"people should make the decisions that affect their lives," in the words of that organization of premature counterculture McGoverniks, Students for a Democratic Society. ("Maximum feasible participation of the poor" was the Great Society version enshrined in the Economic Opportunity Act.) The antibureaucrats and libertarians of the sixties did not want to be folded, stapled, or mutilated. They, too, wanted to live free or die.

At its best, the New Left of the sixties thought it was possible to merge liberty and equality. But the appeal of equality wore thin along with faith in government as a means. Libertarianism had both cultural resonance and economic staying power.

Today, the reduction of economic inequality is the issue that dares not speak its name. Indeed, one measure of the degraded quality of American political language is the virtual disappearance of the word "equality." In an anti-utopian time, when the ceiling of possibility is set low, chances seem slight to mobilize a potent coalition across race and class lines to recognize a common stake in ending poverty—raising the minimum wage, establishing jobs, child care, affordable housing, and universal medical coverage. The prevailing sense of scarcity is a major obstacle to a resumption of the egalitarian spirit. So is the segmentation of solidarities, which furthers the traditional American preoccupation with opportunity. Instead of a massive outcry against the steepness and slipperiness of the pole of success, we get recriminations about whether rewards at the top are distributed equitably with respect to race and gender. Instead of serious debate about the causes and cures of astounding degrees of inequality in wealth, health, and other social goods, we are regaled on every hand with denunciations of the other E-word— "elitism."

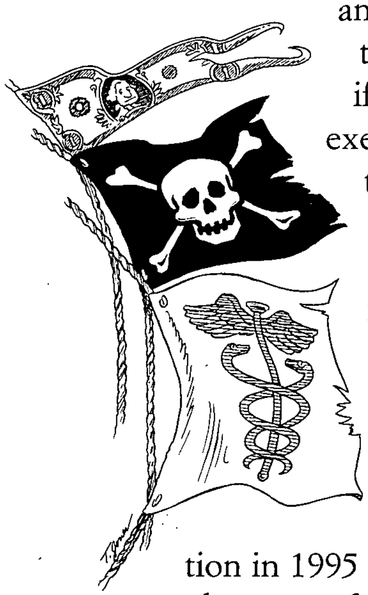
Segmented solidarity on the left, fraudulent libertarianism on the right—absent a missing synthesis, each curdles. (Unhappy is a country that must turn to Pat Buchanan for speeches on the plight of working people.) The heart of the missing progressive synthesis would be simple: more equality in material conditions and more democracy in matters of economic power. The sixties' project of reconciling liberty and equality was noble, difficult, and deserving of renewal. That project, after all, dates from the American Revolution. Where the sixties went wrong in the end was in the extravagance of its libertarian strain. The next liberalism will have to get the proportions right.❑

SAVING THEIR ASSETS

HOW TO STOP PLUNDER AT BLUE CROSS AND OTHER NONPROFITS

BY JUDITH E. BELL

First it was hospitals and nursing homes, ambulatory care centers and health maintenance organizations (HMOs). Now it is Blue Cross plans and major teaching institutions. In an accelerating rush to the marketplace, many of America's largest health care nonprofits are being converted into profit-making organizations. As this wave continues—and nothing, currently, seems likely to stop it—billions of dollars in charitable assets are at risk. If we follow one course, state regulators and an aroused public can at least force converting nonprofits to transfer the value of their assets to new charitable foundations. But if regulators fail to act, the charitable legacy will be lost and more executives of nonprofits will become overnight millionaires by capturing the assets for themselves and their investors.



Recent experiences in California and Georgia illustrate the contrasting possibilities. California now has two new grant-making foundations with a total endowment of $3.3 billion, transferred from the nonprofit Blue Cross of California when it converted into a for-profit company. The foundations, which resulted from years of advocacy by consumer groups, regulators, and a few outspoken legislators, will be devoted to improving health care and public health. Georgia, on the other hand, enacted legislation in 1995 that made it much easier for the state's Blue Cross and Blue Shield plan to go for-profit and to argue successfully that it had no obligation to use its assets for any public benefit. Instead of establishing a foundation, Georgia Blue Cross is likely to provide its executives and investors with a windfall amounting to hundreds of millions of dollars.

Blue Cross and Blue Shield plans in at least 17 other states are either contemplating converting to for-profit operation or are already in the process, and more will undoubtedly follow. Conversions of other health care nonprofits are continuing at breathtaking levels. Nationally, the number of nonprofit hospitals merging with or being acquired by for-profit businesses climbed from 18 in 1993 to 176 in 1994. A November 1995 review by the *Chronicle of Philanthropy* found at least 65 conversions

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of nonprofit health care institutions pending around the country. Columbia-HCA Healthcare, the nation's largest for-profit hospital chain, said in 1994 that it planned to acquire as many as 500 more hospitals in the next few years, and in 1995 it purchased or began joint ventures with 41 nonprofit hospitals; on March 29, 1996, Columbia announced it would start a joint venture with Blue Cross and Blue Shield of Ohio, pending approval by state regulators.

The Blue Cross plans alone represent an enormous treasure. As of the end of 1991, according to a U.S. Senate committee report, Blue Cross and Blue Shield plans had assets of $30.1 billion and reserves of $9.8 billion. A national spokesperson for the Blues recently claimed that the plans' asset value is now double, about $60 billion. The value of a nonprofit hospital can easily exceed $100 million.

The commercialization of health care raises many troubling questions. The culture of health care used to value the care of the vulnerable; now it is increasingly devoted to the care of the shareholders. One issue in this turn toward the market is simply what happens to all the public resources that have gone into building America's health charities: Will the executives and investors simply be allowed to walk off with billions of dollars? Or will the public at least reclaim the value of the assets? At the west coast regional office of Consumers Union, which I codirect, we have sought for more than 12 years to preserve the charitable assets of converting nonprofit health care companies. Our project, originally focused in California, is now a joint effort with Families USA (Boston) in 50 states and involves hundreds of people across the country. As more health care nonprofits seek legal approval to go for-profit, what we have learned is of growing importance.

They Can't Take It With Them

The directors and executives of nonprofit institutions are not legally entitled to any of the organization's assets. Under virtually all state laws, the assets of nonprofit organizations must be permanently dedicated to charitable purposes. Nonprofit health care organizations were established and grew, in large part, through relinquished taxes and access to public start-up and investment funds, including tax-free bonds. Charitable contributions as well as volunteer time and effort have also been invested in nonprofit hospitals. In effect, the public is the "shareholder" of every nonprofit. Nonprofits receive their special legal status, including their tax exemption, not for any executive's private benefit, but to serve broad public and charitable missions, which the executives are supposed to put ahead of any financial return. The Blue Cross plans and hospitals now seeking to convert to for-profit status want to free themselves of their original public mission so they can raise capital, grow larger, and make the financial return to investors their governing interest. It is this change that requires them to give up the assets they have received for charitable purposes.

The effects of commercializing America's health care system are unclear. Studies comparing nonprofit and for-profit health care companies—many of them funded by the industry itself—have been inconclusive. Some research suggests for-profits behave no differently from nonprofits or are more efficient. Curiously, this information often comes from conservative economists or business school professors. Other studies suggest that nonprofits provide higher-quality care and devote more of their resources to health care (relative to administrative costs and income) than do for-profit companies.

As health care charities convert to for-profit businesses, the Republican Congress has not raised any questions about the conversions; instead it has turned a critical eye on the remaining nonprofits. Congressional hearings have questioned whether nonprofits deserve tax-exempt status and have singled out the high salaries and generous benefit packages of some nonprofit executives. A report by the investigating agency of Congress, the General Accounting Office, estimates that in three states about 57 percent of the nonprofit hospitals spent less on indigent care than they would have paid in taxes if they were taxable.

On the other hand, studies by the California Medical Association suggest that nonprofit operation of HMOs makes a positive difference. In 1995 the state's largest nonprofit, the Kaiser Foundation Health Plan, devoted 96.8 percent of its revenue to health care and retained only 3.2 percent for administration and income. In the same year, the newly converted for-profit California Blue Cross plan spent only 73.03 percent on health care while devoting 26.97 percent to administration and profit. Of the ten HMOs that in 1994 spent the highest proportion of revenue on medical care, seven were nonprofit; in 1995, nine out of ten were nonprofit.

Nonprofit organizations seeking to convert typically argue that they need investment capital to

expand and that nonprofit status is a barrier. Historically, private donations, government grants, and tax exemptions were important sources of capital; in recent decades, nonprofits have obtained capital primarily from retained earnings and debt. Supposedly, the cutthroat competitive market now requires access to equity investment for survival. Yet the recent history of America's nonprofit hospitals and health insurers does not suggest they have suffered from any capital shortage; in fact, most analysts agree that the hospitals overexpanded. What is certain, however, is that turning nonprofits into profit-making businesses has generated enormous gains to the people involved in the transactions.

When a nonprofit decides to convert to for-profit, merge, or be acquired by a for-profit company, state laws typically require that the value of the nonprofit's assets be transferred to another nonprofit pursuing similar charitable goals. The responsibility for overseeing and approving these transactions usually lies with the commissioner of insurance and the attorney general. In most states, the insurance commissioner is responsible for nonprofit HMO and insurance company conversions, while the attorney general oversees hospital and nursing home transactions. In California, the corporations commissioner regulates HMOs.

Unfortunately, the regulatory agencies typically lack the experience and staff to oversee these complex transactions. In some cases, regulators do not recognize the distinctive public-benefit responsibilities of nonprofits and fail to enforce the laws governing the use of a nonprofit's assets upon conversion. For instance, until the *Baltimore Sun* highlighted the proposed conversion of Maryland Blue Cross, the state insurance commissioner was not even planning to hold public hearings on the transaction. New York's insurance commissioner refused to release any records about Empire Blue Cross's creation of two for-profit subsidiaries until the transaction was approved.

In general, a conversion should result in the transfer of the full value of the nonprofit's assets to a charitable foundation or nonprofit organization with similar goals to those of the dissolving nonprofit. These transactions, however, are not straightforward. Past conversions, mergers, dissolutions, and joint ventures have been riddled with problems. Even when regulators have insisted on a transfer of assets to a new foundation, they have often undervalued the assets and allowed millions of dollars to be squandered on huge windfalls in executive stock options.

The Great HMO Turnover

The HMO industry graphically illustrates the trend toward for-profit control and the problems raised by the conversion of nonprofits. Most HMOs began as nonprofits; many were formed to take advantage of government subsidies that were reserved for nonprofits. The federal HMO Act of 1973, for example, provided grants only to nonprofit HMOs. Many HMOs also sought nonprofit status to enjoy the benefits of tax exemption and to receive tax-deductible donations. Government invested public resources to help achieve a public good: lower cost and increased access to health care.

Initially, state statutes prohibited HMOs from being profit-making businesses. By the mid-1980s, however, HMOs had convinced every state legislature, except in Minnesota, to allow HMOs to be for-profit companies and in some cases to allow nonprofits to convert to for-profit businesses. The stage was set for an explosion of conversions. In California, for-profits went from 16 percent to 65 percent of the HMO market between 1980 and 1994; now all but two of the state's largest HMOs are for-profit. In June 1994, in a dramatic shift, the national Blue Cross and Blue Shield Association voted to allow members to become for-profit companies.

While they have publicly claimed that for-profit status was necessary for expansion, insider executives have made millions of dollars converting nonprofits. The conversion of HealthNet, now called Health Systems International (HSI), shows one reason why top executives find the case for conversion so persuasive. When HealthNet converted in 1992, 33 executives purchased 20 percent of the company for just $1.5 million; as of April 1996, those shares were worth approximately $315 million. Roger Greaves, formerly co-CEO and cochairman, paid only $300,000 for shares that are now worth $31 million, a 10,000 percent gain.

By moving their organization into the for-profit sector, the executives also typically get paid a lot more. In 1994 HSI paid its current CEO, Malik Hasan, $8.8 million; Foundation Health's chief executive received $13.7 million. In contrast, David Lawrence, the chairman of Kaiser Permanente, has a salary of $803,000 even though Kaiser, which remains nonprofit, is the nation's

largest staff-model HMO (that is, with group medical practices staffed by its own doctors).

The path to riches is now familiar. In the typical scenario, both the converting nonprofit and the regulators severely undervalue the organization, the executives buy shares of the new company at low prices, and the transaction gets approved by regulators. Executives then become millionaires when the company goes public and its stock climbs to its actual market value. Recent HMO conversions offer many examples of this pattern. Two years after the California Department of Corporations approved a $38 million price tag for Family Health Plan (FHP), the market value of the for-profit was $135 million. When PacifiCare converted in 1984, it was valued at $360,000; less than one year later, the market value of the for-profit was $45 million. Greater Delaware Valley Health Care was valued at $100,000 in 1984, yet the new for-profit was worth $20 million in 1986. Group Health Plan of Greater St. Louis was valued at $4 million in 1985, but the for-profit was worth $40 million in 1986. In each case, the public lost millions of dollars in charitable assets because state regulators failed to ascertain the nonprofit's fair market value.

And no wonder: The methods used by regulators were virtually guaranteed to generate windfall profits to the executives. In some cases, the regulators have valued only tangible property even though an HMO's most valuable assets may be its name recognition, provider contracts, and subscriber lists. Some valuations have failed to include the trademark, effectively making it a gift to the new for-profit business. This is no small matter, particularly for Blue Cross plans. According to trademark experts, Blue Cross may be the most recognized trademark in the United States after Coca-Cola. And, finally, most valuations have not used competitive bidding or stock market value to determine the fair market value of the company. An accurate valuation should focus on the value of the organization as a business, not its prior value as a charity, because it is the organization's profit-generating potential that is at issue.

California's New Precedents

The two most recent large California transactions—the conversions of HealthNet and Blue Cross—should set important national precedents for properly valuing nonprofit assets. When HealthNet announced it wanted to go for-profit in 1991, it had nearly 900,000 members, yet the company said it was worth just $104 million. This paltry estimate ignited demands by Consumers Union for greater public scrutiny. Sure enough, after the California Department of Corporations rejected the valuation, a bidding war broke out among HealthNet's competitors, including Blue Cross of California, Humana, Qual-Med, and Foundation Health. Even though HealthNet rejected all outside bids, it was forced to raise its valuation of itself to $300 million in cash plus an 80 percent equity interest in the new for-profit. These assets went to a new foundation, the Wellness Foundation, and are now worth between $800 million and $900 million. In other words, the people of California got eight to nine times more than HealthNet's original offer because regulators finally acted to defend the public's assets, and the addition of an equity share captured the true value of the nonprofit far more accurately than did the methods used in previous conversions.

The original proposal for Blue Cross of California's conversion reflected just how successful the HealthNet transaction had been in capturing the nonprofit's assets. Blue Cross came up with a novel legal theory to avoid endowing a new charitable foundation. It called its plan a "restructuring" and proposed to create a new publicly traded for-profit with 90 percent of the nonprofit's assets. Since the nonprofit would continue to exist and hold the majority of stock in the new for-profit, Blue Cross claimed it was not converting to for-profit. Supposedly, California law applied only when an entire nonprofit corporation became a for-profit business.

Under the proposal, which contained a generous stock option plan for top executives, the management of Blue Cross would have been able to reap huge financial rewards and use the remaining nonprofit charitable assets to finance their for-profit ventures. Although Consumers Union and others fought the proposal, the Department of Corporations approved it in December 1992. The new for-profit, Wellpoint Health Networks, took over the vast majority of Blue Cross assets, while the continuing nonprofit, Blue Cross, held 80 percent of the stock in Wellpoint.

The chairman of the State Assembly's Judiciary Committee, Democrat Phil Isenberg, was later able to negotiate a commitment from Blue Cross to make a minimum of $5 million per year in charitable donations for the next 20 years. Then a new corporations commissioner, Gary Mendoza,

reignited the debate and dramatically changed the results. In August 1993 Mendoza asked Blue Cross to provide him with a plan for meeting its charitable responsibilities under the law. By May 1994 he made clear that he regarded the answers from Blue Cross as inadequate from the standpoint of Blue Cross's shareholders—the people of California.

Commissioner Mendoza's actions provided public interest groups with the opportunity to marshal support for protecting the public's charitable assets. A campaign started that included letters of protest, administrative petitions, and an onslaught of legal and policy analyses. Somewhat later, the California Medical Association, unions (particularly the Service Employees International Union), and the California Nurses Association also became involved. In September 1994 Blue Cross submitted a "public benefit plan" that included a commitment to use all of the nonprofit's assets to create a new foundation. A careful review revealed, however, that the proposal was self-serving and could turn into a dangerous precedent. The new foundation was to be established under a section of the Internal Revenue Code typically reserved for political organizations, such as the National Rifle Association and Common Cause. The old Blue Cross board of directors would become the board of directors of the new foundation, which would have been able to contribute to election campaigns and sponsor ballot initiatives. Far weaker conflict-of-interest rules would have applied to the new foundation than if it were established as a genuine philanthropy under stricter IRS rules; in fact, funds not used for political purposes could have supported Blue Cross's for-profit business in other ways, such as conducting its research.

Naturally, public interest groups did not accept this sham and questioned the legal status of the new foundation, the lack of a new independent board, and the absence of strict conflict-of-interest rules. In the midst of this contentious debate, the national Blue Cross and Blue Shield Association announced new rules for member organizations that strengthened the hand of California Blue Cross. The new rules protected the management of any Blue Cross plan from being replaced and attempted to maintain the Blue Cross board of directors as a supermajority of the new foundation board and to keep them in control of the sale of any stock. The association's source of power is its ability to deny the license to use the Blue Cross name to any organization that fails to follow its rules. Since the license was a key element of the conversion and the proposed merger, the association could not be ignored.

The corporations commissioner criticized the national Blue Cross and Blue Shield Association but did not succeed in having the rules significantly changed. Nonetheless, the final transaction succeeded in preserving the majority of the company's assets for charitable uses. Under the approved plan, Blue Cross of California will create two new foundations. The first, the Western Foundation for Health Improvement, established under the more restrictive section 501 (c) (3) of the Internal Revenue Code, will ultimately have an endowment of more than $2 billion and be controlled by a board with a majority of new and independent members. The second foundation, Western Health Partnerships, established under the looser section 501 (c) (4), will have a board with a majority of old Blue Cross directors, but it will be prohibited from participating in any political or lobbying activities. It will also be required to follow the strict conflict-of-interest rules that apply to 501 (c) (3) foundations. These protections are included in the foundation's charter documents and may not be changed without the approval of California's attorney general.

The combined assets of the two new foundations represent the tenth largest philanthropic endowment in the United States. In 1996, they will make at least $150 million in grants; thereafter, grants will be at least 5 percent of the consolidated assets of the two foundations—the required minimum for philanthropies. The "independent" board members were chosen under a complex scheme, managed by three search firms and overseen by the corporations commissioner. The attorney general will monitor the new foundations, as he currently monitors other philanthropies. Legislation enacted in 1995 in California, modeled on the final Blue Cross transaction, provides a statutory framework for regulatory review of conversions to ensure that nonprofit HMO assets are preserved for charitable purposes. The approved conversion is not perfect, but it is no small victory for the people of California—and a useful paradigm for other states to build upon as they face proposed nonprofit conversions.

The Road from California

The pace of nonprofit HMO and insurance company conversions has dramatically accelerated

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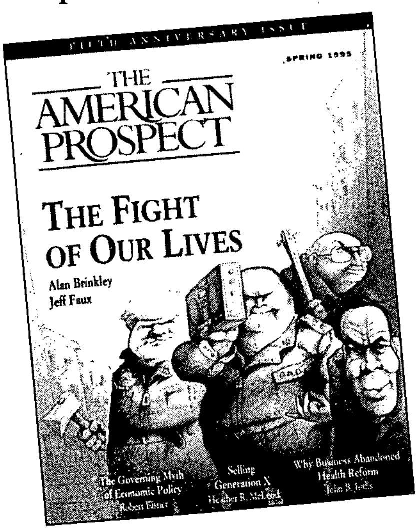

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since the conversion of Blue Cross of California, which was the first state Blue Cross plan to convert after the national association changed its rules to allow for-profit members. Proposed conversions of Blue Cross plans or other large nonprofit HMOs or insurers are now completed, pending, or about to be announced in such states as Colorado, Maine, New York, Missouri, Maryland, Georgia, Virginia, and Oregon. Blue Cross of California has signaled its intention to acquire plans in other states, and the joint venture between Blue Cross and Blue Shield of Ohio with Columbia-HCA, if it occurs, will open an era of mergers and acquisitions that promises to make some executives, financial advisers, and investors very rich.

Public interest groups and regulators around the country should benefit from California's experience. The proposed Missouri conversion, for example, resembles the original gambit of Blue Cross of California. Blue Cross and Blue Shield of Missouri has similarly tried to avoid endowing a new foundation by creating a for-profit subsidiary with about 75 percent of the organization's assets. The Missouri debate has sparked strong language from the state's insurance commissioner and the formation of a new consumer coalition spearheaded by the Missouri Association for Social Welfare.

In other states, such as Colorado, Maine, and New Jersey, Blue Cross plans intending to convert have first attempted to change state laws to make it easier and cheaper. The proposed laws typically eliminate or severely restrict the nonprofit's responsibility to transfer any assets to a foundation upon conversion. In Colorado and Maine, consumer groups were alerted in time to push for important amendments. Trigon, Virginia's Blue Cross plan, succeeded in pushing legislation that allowed it to convert by giving the state $175 million, to be used to fund a shortfall in the state's education budget. The price tag did not reflect any independent assessment of the company and appeared to be a severe undervaluation of the company's fair market value.

Given current trends and the incentives facing top decisionmakers, the future of nonprofits in health care looks bleak. Americans should be asking the basic question of whether it makes sense to turn our health care institutions into for-profit businesses whose fundamental obligation, as a matter of law, is to serve the stockholders. Traditionally we have considered health care to be different from an ordinary business. Patients are vulnerable; they do not have the same ability of most buyers to defend their interests. Stockholder demands for high returns may result in reductions in the quality of care that patients cannot easily detect or anticipate. The drive toward the marketplace also makes it difficult for the remaining nonprofits to continue to serve the charitable mission of delivering care to patients who cannot pay.

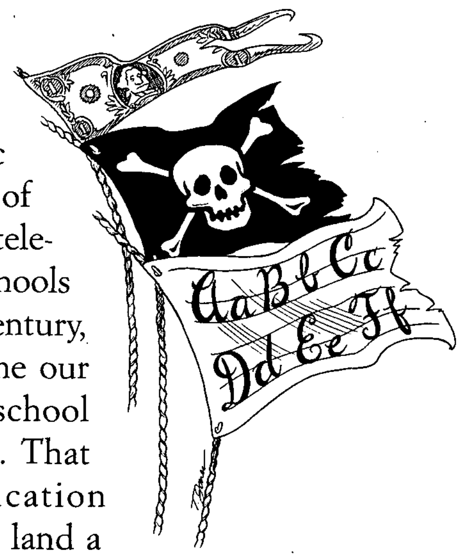
Instead of caving in to pressure from Blue Cross plans, state legislators should enact protections for their states' valuable nonprofit resources. Legislation should provide for public notice and hearings and require transfer of 100 percent of the nonprofit's assets based on a fair market valuation. Companies seeking to convert should be required to pay fees so that regulators can seek independent expert advice needed to dissect and digest proposed transactions. To protect the successor foundations from conflicts of interest and to assure that they act as responsible philanthropies, the new foundations should be established under Internal Revenue Code section 501 (c) (3) and governed by a board with all new independent members. Moreover, state statutes should build in mechanisms that ensure that proposed conversions take place in the full light of public scrutiny. Regulators should take a particularly broad view of hospital conversions because of the risk to indigent care and other public services. Congress can eliminate the ability of individuals involved in nonprofit tax-exempt institutions from receiving windfalls from transactions. Today, only some transactions are covered and carefully reviewed by the Internal Revenue Service.

While we may be unable to stop every proposal by a nonprofit institution seeking to go for-profit, regulators and the public can at least protect nonprofit assets for charitable purposes, rather than watching idly as they are lost forever. Public attention and participation can make the difference in whether conversions result in any public benefit. The Blue Cross plans, HMOs, and hospitals seeking to convert typically have highly paid, well-connected lobbyists and executives. To succeed, consumer groups, investigative reporters, and the public at large must raise their voices early and loudly. The lesson from California—in health care as in other things—is that even if flood, fire, and earthquake cannot be prevented, we can still rescue something of value.❑

"F" Is for Fizzle

The Faltering School Privatization Movement

BY PETER SCHRAG

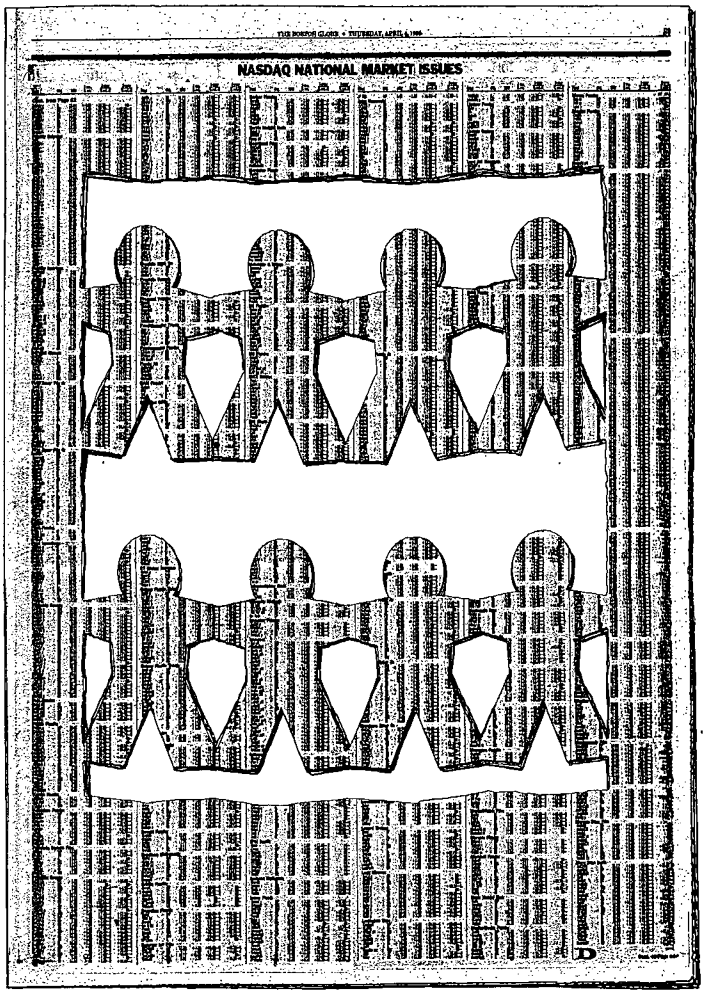


Only a few years ago, privatization was the shiniest comet in the firmament of public school reform. Chris Whittle, Pied Piper of Channel One, the highly profitable in-school commercial television program, was vowing to open 200 new for-profit schools by 1996 and at least 1,000 by the beginning of the next century, schools that would outperform public schools and redefine our whole framework of education. In 1993 initiatives for school vouchers were on the ballot in California and Colorado. That same year, a Minneapolis-based firm called Education Alternatives, Inc. (EAI) seemed to come from nowhere to land a $180 million five-year contract to run nine of Baltimore's public schools.

Two years later, in 1995, EAI signed a deal of even greater potential to manage the whole Hartford, Connecticut system, a district enrolling some 24,000 students in 32 schools and spending $171 million a year. After voucher-touting Republicans took over the House of Representatives (and thus the purse strings of the nearly bankrupt District of Columbia), the company also began negotiating to do the same thing for some—or perhaps all—of the hapless, and costly, Washington, D.C., schools. In both cases, the companies were betting on a combination of fresh paint and carpets, mildly innovative pedagogy, often with its own trademarked jargon, lots of computers, and the dead-certain conviction that they could save a bundle by managing things more efficiently than the bloated school bureaucracies.

For the teacher unions, which have been fighting it at every turn, privatization, often coupled with the shadow of private school vouchers, was the thing from hell. For liberal school reformers like Jonathan Kozol, it was a further wedge in the growing gap between schools for the rich and the poor, and another example of how the poor were being sold to the lowest bidder. And for a lot of people on Wall Street, what came to be known as EMOs (education management organizations) had nearly unlimited potential, not just to prove out the trendy free market theories in K-12 education running through conservative circles, but, as analogs to the burgeoning managed care health industry, promising big bucks for investors.

Two years ago, after EAI came to Baltimore, its shares were selling at 48 3/4 on the NASDAQ over-the-counter market. "We figure we can reduce operating and administrative spending by 25 percent," EAI's then-ebullient chairman John T. Golle told a credulous writer for *Forbes* magazine, "and



put 20 percent back in the classroom. The other 5 percent will be our profit." And he would do it, as the Baltimore contract required, with regular union teachers. That was both a useful capsule of how free-marketeers viewed the K-12 schools and a sign of how fast they expected results.

But in the past year, the comet, like a great many previous all-purpose solutions in public education, began to fizzle, not yet burned out by any means, but a far dimmer and slower-moving body than it seemed in 1992-94. Only a few months after it had made its privatization deal, the Hartford school board, finding itself in sharp disagreement with EAI over the terms of its contract, scaled the company back from 32 to 6 schools and, after continued disputes, cancelled the deal altogether. Something similar occurred in Baltimore, where the school board, squeezed for funds, buffeted by pressure from its teachers union, and sharply divided about how much EAI was accomplishing that wasn't being accomplished elsewhere in the system, cancelled its EAI contract.

In neither place had EAI managed to show any clear academic improvement; in Hartford it hardly had the chance, and in Baltimore, the improvement of the last year of its operations barely seemed to offset the relative decline of the first. In addition it had, in the words of one union official, "played funny games" with federal compensatory education money; it had, according to its critics, placed learning-disabled students in regular classes without providing them much in extra services, and it appears to have spent more money per student than comparable schools.

For a time, trading in EAI shares was suspended; when it resumed, EAI was selling at 4 5/8. The company, Golle told his shareholders last December, was changing its focus. In the face of the Baltimore cancellation and the ongoing financial dispute in Hartford—the final cancellation of the contract yet to come—its future was no longer in urban schools but in an environment that was "less political and less volatile." Unfortunately, Golle said, "the people we view as our best users are now suburban." The meeting, said *New York Times* reporter George Judson, "was a sobering affair."

By then Whittle's Edison Project had undergone its own sobering moments and an even more radical metamorphosis. After the brash announcements that it could build and run those 1,000 innovative new schools, charge no more than what the average public school spent (roughly $5,500 per child per year), have 20 percent of all students on scholarship, and still earn a profit, the company slowly began to discover that things didn't quite pencil out.

In the meantime, the politics began to look dicier as well. In 1991-92, when Edison was just getting off the ground, Whittle had uncomfortably close ties to Lamar Alexander, George Bush's sec-

retary of education; and high hopes that sooner or later, an unrestricted private school voucher would come either from Washington or in one or more of the states where voucher proposals were pending. (Alexander had bought four shares of Whittle Communications in 1988 for $10,000, then sold them back to Whittle four months later for $330,000.) But Bush was defeated for re-election, voters in Colorado and California soundly rejected voucher proposals, and Whittle Communications shriveled after a series of financial disasters, many of them self-inflicted.

As a consequence, Edison was recast on a far more modest scale. Instead of building its own schools, it would, like EAI, bid to manage existing public schools. Former Yale President Benno Schmidt, whom Whittle had hired away from New Haven in 1992, and whose appointment had given Edison cachet as an educationally responsible operation, was still there, as chief executive officer, and so was John Chubb, a Brookings Institution fellow and one of the country's strongest proponents of public school vouchers. But gone was Hamilton Jordan, who had been President Jimmy Carter's chief of staff and was one of Whittle's more notable hires—his years at Whittle, he told people privately, had been a waste of time—and Whittle himself had been relegated to a secondary role on the board of what was now a separate entity. As of January 1996, the Edison Project was running four schools—one each in Boston; Mount Clemens, Michigan; Wichita, Kansas; and Sherman, Texas—and preparing to run four more, two in Miami, one in Colorado Springs, and one in Springfield, Massachusetts, beginning in the fall of 1996.

None of that should suggest that "privatization"—meaning the operation of K-12 schools, or large parts thereof, by private entities with public school money—is dead and gone. While few people other than committed enthusiasts would agree with the statement by John McLaughlin, who publishes a newsletter called the *Education Industry Report*, that the EAI setback "is not an industry setback," privatization, in more modest form, is still around. Boston University, under a ten-year agreement signed in 1989, is running the entire school system in Chelsea, Massachusetts; and a Nashville company called Alternative Public Schools, Inc., is running a public elementary school in Wilkinsburg, Pennsylvania, a Pittsburgh suburb, which, like Chelsea, is largely a poor and minority community. There are in addition a number of companies, like Ombudsman Educational Services of Libertyville, Illinois, operating alternative schools or remedial after-school "educational clinics" for problem students who are on the verge of dropping out—or being booted out—of school; some of these companies are eyeing the regular K-12 market. And despite a massive union campaign to unseat them, the backers of privatization easily retained control in Wilkinsburg. (Alternative Public Schools, the Wilkinsburg contractor, lost a significant battle this winter, however, when an arbitrator ruled that it had to hire back the 14 teachers it had fired when it began to run Turner Elementary School.) In February, after the EAI deals in Hartford and Baltimore fell through, Lehman Brothers issued a report declaring again that "the education industry may replace health care in 1996 as *the* focus industry."

But as Joe Nathan, who heads the Center for Educational Change at the University of Minnesota, points out, the expectations and ambitions of the privateers have become more realistic and less ostentatious. One of the strange ironies about both EAI and Edison is that the educational philosophies and curricula advertised by these hard-headed, market-driven operators have a distinctly untraditional, if not altogether new-age, touchy-feely aroma. EAI's "morning meeting," complete with rousing songs about one's "potentiality," is designed, according to company literature, "to build self-esteem." Its trademarked curricular approach, named Tesseract after "a fifth-dimensional corridor" in the children's book *A Wrinkle in Time*, "focuses on each child to nurture his or her educational needs [to improve] confidence, self-esteem and academic performance." This is not exactly what the back-to-basics crowd is looking for.

Another irony is that, at least until EAI's announcement last November that it intends to refocus on the suburbs, both companies have concentrated on inner-city schools, which have more apparent need for improvement as well as richer mixtures of extra state and federal funds to do it with. The case for privatization is easier to make in educational disaster zones like Washington, D.C., or Hartford, which spend large sums per pupil yet have little to show in academic performance, than it is in an affluent suburb to which parents have

moved because of the schools. Nor are the privateers likely to back away from their devotion to computers, in part because they make good classroom baby sitters that allow teachers to concentrate on smaller groups, and in part because computers are so fashionably (and in some cases, perhaps, so deceptively) modern.

Yet, as Nathan said, there are signs that EAI and Edison—and privatizers generally—have learned a great deal from their bruises. The first is to be more modest: In Hartford, EAI was so sure that it could save the system money that it agreed not to take any profits until it did so; no one will ever do that again. In addition, while Edison plans to expand individual operations, like its Boston Renaissance School, which now has only primary grades, into complete K-12 schools, it's not likely that anyone will soon try again to swallow a whole system. Equally important, the companies have probably learned not to fight the unions head-on as EAI did in Baltimore (where it kept most regular classroom teachers but replaced aides with student interns, who were being paid about half as much), but to negotiate with them, as Edison is doing in the districts that have union contracts. But probably the biggest lesson, still not fully acknowledged, was that neither company had any real idea of how complex the management of public education really is, how great the distance is between the shiny ideas of the curricular plan and what actually goes on in the classroom between a teacher and child, and how hard it is to show dramatic improvement.

Ultimately, the key to the future of privatization lies not so much in any corporate boardroom as in the public's perception of its schools and thus in the political arena. Probably the single biggest influence on the future of privatization will be the success of the charter school movement. Nineteen states now have charter school laws, bills are pending in another ten, and about 250 charter schools have been established. In some cases, groups of teachers and parents have taken over an existing school; in others—a majority, according to Frank Newman, executive director of the Education Commission of the States—independent nonprofit groups have created an entirely new school. Charter schools are free from many conventional state requirements, though often still bound by state laws governing collective bargaining with teachers. All are in theory accountable for meeting the terms and promises of their charter. The

Boston Renaissance School operates under contract with a local nonprofit group that has a charter from the state, and it's likely that if privatization spreads, it will be primarily through the new schools that charters make possible.

The political support for charter schools, in turn, will depend on how well the schools do in any given state or community, how obstructive or friendly the bureaucracies and unions are perceived to be—and how well Republicans do in the November elections. It is hard to defend the status quo when districts continue to agree to union contracts in which seniority, not quality or productivity, is the preeminent consideration in teacher promotion and placement and when most teachers get no real incentive for success or effort. In Minnesota, Nathan said, 3 of the last 15 teachers-of-the-year were laid off because they lacked seniority when staffs had to be cut.

In theory, the privateers ought to be at a great competitive disadvantage. They have to make money for their investors; the public schools do not. But if Dole beats Clinton and the Gingrich Republicans retain their hold on the House; if Pennsylvania Governor Tom Ridge, rather than just coming close, succeeds on his next try to get a voucher bill through the state legislature; if California Governor Pete Wilson can get his proposed private school voucher program enacted—if these or other initiatives succeed, the forecasts of a burgeoning private school industry by Michael Moe, who follows (and boosts) the industry at the brokerage house of Lehman Brothers, may well be borne out. On November 7, the day after the cancellation of EAI's contract in Baltimore, the Washington, D.C., school board issued a call for proposals for management services for its notoriously costly schools. By then both Washington's fiscally strapped city council and the House of Representatives had endorsed a broad school reform plan drawn up under Representative Steve Gunderson, Newt Gingrich's point man for the District, which included charter schools and federal "scholarships" for District students to attend private schools. Only the threat of a filibuster blocked enactment of the plan in the Senate.

That's not to say every state that enacts a charter school law or creates a voucher plan is ripe for corporate takeovers. But where the perceived return for students seems small relative to the expenditures, the public schools, like corporations sitting on large underused assets, are increasingly vulnerable. It's also likely that where a growing share of available funds are put into special education or other non-mainstream enterprises, as is ever more frequently the case, the target becomes even fatter. Conversely, every profit-centered enterprise will be under pressure to reduce costly special services even to those who need them.

John McLaughlin speaks about the "growing consumer orientation in education," which, in different terms, is the shrinking regard for education as an integrating community enterprise. Both open doors to what would once have been nearly unthinkable. The school unions hate it, for reasons that should be obvious enough, but where they are perceived to be barriers to decent education or desirable reform, they will be treated as just another set of self-serving interest groups in the battle for control. The corporate operatives at EAI and Edison badly overestimated the waste and inefficiency of the average school district, not to mention its social and political complexities, and thus their capacity to draw savings and profits out of the fat. So far neither has shown any impressive numbers, either in student performance or in making profits. But the existence of the industry, both as a small but irritating reality and as a big-time threat, ought to do wonders in concentrating the minds of the establishment and those who purport to be its friends. For all their costly mistakes in the past five years, the privateers' ability to learn and react accordingly ought not be underestimated. It's not yet clear that the average public school system has an equal capacity for self-correction.❑

FOR FURTHER READING:

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Paul D. Houston, "Making Watches or Making Music: Arguments Against Private Management of Public Schools," *Phi Delta Kappan*, Vol. 76, No. 2 (October 1994).

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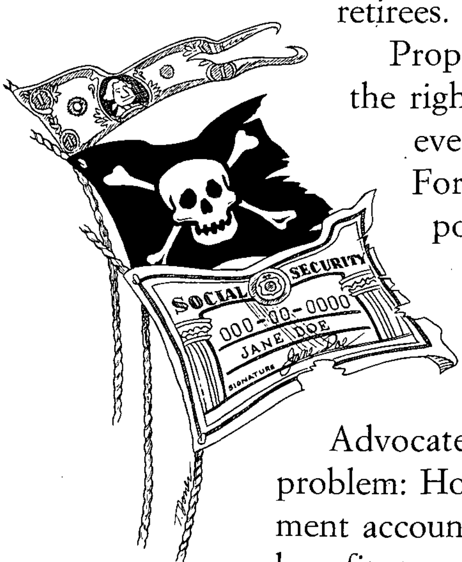
RAID OF THE PRIVATEERS

THE BIGGEST DEAL

LOBBYING TO TAKE SOCIAL SECURITY PRIVATE

BY ROBERT DREYFUSS

Not long ago, the *Wall Street Journal* called privatizing Social Security "the biggest bonanza in the history of the mutual fund industry." No wonder: By diverting 2 percent of payroll from Social Security into private accounts, the government could shunt $60 billion a year into the coffers of investment firms, banks, and insurance companies. And some advocates of privatization, such as the libertarian Cato Institute, want to replace Social Security entirely with individual, IRA-like accounts that would end the government's role once and for all in providing for the security of retirees.



Proposals for privatizing Social Security have circulated on the right-wing margins of American politics for decades. Not even the Reagan administration would embrace the idea. For years, tampering with Social Security was considered politically untouchable. The 43 million people who typically receive 30 to 40 percent of their income from the program—many of them members of the American Association of Retired Persons (AARP)—represent one of the most formidable forces in American politics.

Advocates of privatization could also never get past one basic problem: How could Social Security taxes go into individual investment accounts when the money was immediately being used to pay benefits to retirees?

Now two things have changed. A projected long-term deficit in Social Security accounts is opening the door to more radical remedy. And a new coalition in support of privatization is taking shape, backed by financial interests that see an unprecedented opportunity in the diversion of Social Security trust funds. These business and

finance groups are now pouring money into right-wing think tank efforts, lobbying efforts, and publicity aimed at putting privatization on the national agenda. When they are finished, expect the privatization bandwagon to start rolling down your street.

Bankable Ideas

It is not surprising to find the Cato Institute in the midst of the swirl to privatize Social Security; there aren't many things government does that Cato doesn't think private markets can do better. In 1995, for Social Security's 60th anniversary, the Cato Institute began its "Project on Social Security Privatization," with a goal of raising $2 million to support a nationwide effort to raise public awareness of a crisis in the system, focusing on the Hill, the media, and public opinion. "We've already raised about half of what we expected to raise," says Michael Tanner, director of health and welfare studies at Cato. "We're receiving support from the financial community, from the investment community, from the insurance community. We're receiving support from large employers concerned about payroll tax increases. And from foundations."

Cato's project is cochaired by Jose Pinera, the former labor minister of Chile who privatized that country's pension system, and William Shipman of State Street Global Advisors, an investment company. State Street itself is taking "a bold stance in favor of private investment options for Social Security revenues," according to its director for industry affairs, Lenny Glynn. To provide political advice, the bank has hired John Sasso, a Democratic consultant who used to be Michael Dukakis's top strategist. Cato's chief backers also include other banks, such as Bank of America, Citicorp, and Chase, as well as insurers and securities firms like Salomon Brothers.

Yet the Cato Institute is so insistent on radical change in Social Security that some of the players, such as the Investment Company Institute (ICI), the Securities Industry Association (SIA), and the National Association of Manufacturers (NAM), appear to be reluctant to get too close to it. Thus ICI has endorsed the more moderate legislation introduced in the Senate by Democrat Robert Kerrey of Nebraska and Republican Alan Simpson of Wyoming, which would channel 2 percent of payroll into private investment accounts [see accompanying article, "Social Security on the Table," page 76]. Last year, testifying in support of the Kerrey-Simpson plan, ICI's Matthew Fink warned that urgent action was needed to deal with a "widespread sense of 'no confidence' in the current Social Security system." Not only would workers get a better return if their money were invested in the Personal Investment Plans (PIPs) envisioned in the bill, but "the shifting of these funds from Treasuries into stocks, bonds and mutual funds would provide much needed capital for private industry," said Fink. ICI believes that anything more than 2 percent would lead to insupportable transition costs, draining too much money from the system and making it impossible to pay benefits to current retirees.

Of course, many experts on Social Security see the situation much differently. In testimony before a Senate subcommittee in March, Brookings Institution economist Henry Aaron compared projected shortfalls in Social Security to earlier ones that were dealt with by making moderate adjustments in the system. In an interview, Aaron warned of the substantial costs associated with privatization because of the fees that would go to Wall Street brokerages and other purveyors of financial instruments and the overhead associated with maintaining millions of private accounts. These costs, Aaron argues, amount to a "head tax," which would fall more heavily on low-income people. Of course, if the securities industry didn't back privatization, Aaron says, "they'd be nuts. One hundred ten million workers, that's a lot of customers."

Putting Social Security in Play

While big business and Wall Street are quietly setting the wheels in motion, a more subtle—and perhaps more significant—effort is also underway to shape public discussion. That effort includes grassroots work, media relations, and publicity stunts. In January, for example, the U.S. Jaycees, an Oklahoma-based organization of under-40 entrepreneurs, launched a nationwide bus tour to promote the need for Social Security reform, including privatization. More public agitation is in the offing because business proponents of Social Security privatization do not believe that it can move forward until Americans are convinced that Social Security is bankrupt and mismanaged by the government and that the private sector ought to take the whole thing over.

The most sophisticated seed money in this arena derives from the J.M. Kaplan Fund in New York. About a year ago, the Kaplan Fund decided that though a lot of people were starting to take a look at privatization of Social Security in one form or another, "nobody knew each other," says Chuck Hamilton of Kaplan. So they hired Carl Helstrom, a consultant with Atlas Economic Research Foundation in Fairfax, Virginia, a pro-market group, to conduct a study of "who's doing what," Hamilton says. The intention was to find worthy recipients of grant money able to take the message of Social Security privatization to U.S. opinion leaders, businessmen, the media, and academics. Eventually Kaplan made a series of four grants.

■ One grant went to the National Center for Policy Analysis, a right-wing think tank in Dallas, Texas, headed by John Goodman, a longtime advocate of turning all government social welfare over to the private sector. Goodman is one of the chief authors of the concept of "medical savings accounts," which would replace conventional health insurance and Medicare as "super-IRAs" would replace Social Security. The Kaplan grant allowed Goodman's group to hold a series of briefings on Capitol Hill for members of Congress and their staffs.

■ A second grant went to the Institute for Research on the Economics of Taxation, a right-wing think tank critical of federal taxation, for a series of briefings on the Social Security crisis held for executives in the financial services industry.

■ A third grant went to Third Millennium, a group consisting of just 1,700 members that nonetheless purports to represent the unfortunately named Generation X. [See Heather R. McLeod, "The Sale of a Generation," *TAP*, Spring 1995.] In the debate over Social Security, Third Millennium is best known for a poll conducted by Newt Gingrich's favorite pollster, Frank Luntz—one of the architects of the Contract with America—that reported that more young Americans believe in flying saucers than in the future of Social Security. Third Millennium Executive Director Richard Thau is busily placing op-eds, making television appearances, speaking and testifying on Social Security issues and, he says, "trying to create a climate where young people could understand what the issue is about."

■ And the fourth Kaplan Fund grant went to the National Development Council, whose chairman, Sam Beard, a voluble former Robert F. Kennedy aide, is seeking to create a grassroots drive to privatize Social Security. His model is Mothers Against Drunk Driving. But although, Beard says, "I'm taking money from everybody," he refuses to solicit backing from the securities and Wall Street companies that stand to benefit from the creation of tens of millions of IRA-like accounts. "If the securities industry pushes for this," he says, mixing metaphors, "they will be seen as money-hungry people wringing their hands like vultures. Ironically, if the securities people stay out of this, it would be much easier to sell it."

A survey that Beard has commissioned from Democratic pollster Celinda Lake and Republican Fred Steeper shows that Social Security privatization might win the support of Americans "who are angry with government, don't trust it, are concerned about our economic future, and are angry about taxes going up," according to Beard, citing familiar right-wing themes.

Interestingly, Kaplan did not fund the Cato Institute work, and Kaplan's Hamilton suggested that part of the reason is that Cato is part of the "public policy ghetto" and that "if this is identified as a Cato Institute idea, it's a dead issue." And he added that Cato's project is already well funded. However, both Beard and a representative of Third Millennium were members of the Cato project's advisory committee.

Yet another member of the Cato project advisory committee seeking to build grassroots support is Anne Canfield, a former General Electric financial lobbyist and Hill staffer who set up the Retirement Security Coalition in 1995. Working out of an office at McClure, Gerard and Neuenschwander in Washington, D.C., a lobbying firm set up by former Idaho Republican Senator James McClure and his aides, Canfield's group proposes to "sell this through the power of ideas," winning support from people under age 50. Though she is a savvy Washington insider with strong links to the business and financial groups working the issue on the Hill, Canfield hopes to build a constituency for privatization of Social Security among ordinary citi-

zens, and she has already created a World Wide Web page on the Internet and is planning an advertising campaign.

The Widening Circle

As the privatization campaign develops, many other groups are tentatively exploring their potential role. The Retirement Savings Network, a business coalition established to deal with pension issues, will shortly begin discussing Social Security reform, cautiously at first, says Steve Elkins, director of employee benefits policy at the National Association of Manufacturers. The network also includes the U.S. Chamber of Commerce, ICI, the Securities Industry Association, the American Council of Life Insurance, the ERISA Industry Center, and the Association of Private Pension and Welfare Plans.

In late 1994 NAM established a Social Security task force chaired by Walter Maher, Washington representative for Chrysler, and including Bill Modahl, tax counsel for Digital Equipment, who will also chair a parallel task force just getting underway at the U.S. Chamber of Commerce. Though NAM says that it is too early in the debate for the group to support a particular proposal, it is concerned about the impact of increased payroll taxes on large employers, according to Elkins, who favors privatization. And although he says that NAM has yet to begin lobbying the issue in Congress, Elkins says that he is watching the issue closely on the Hill, predicting that the situation in the Senate will change "very dramatically" this spring as Senate leaders move to support one version or another of the privatization proposals that are circulating.

In addition to the task forces at NAM and the U.S. Chamber, the Fortune 500-based Business Roundtable is also getting its own task force off the ground. And at the American Council of Life Insurance, Ken Vest says that the industry group met recently "to set up the means to study various ideas on privatization," noting that a lot of insurance companies are in the business of managing annuities and 401 (k) plans, which could receive a steady flow of retirement money if Social Security is privatized.

In Washington, the conventional wisdom seems to be that it is too early for politicians to take the lead on Social Security privatization. Newt Gingrich has suggested that the country is not yet mature enough to discuss Social Security, but that the next Congress will have to address the issue after the 1996 election. The leader of privatization efforts in the House is Arizona Republican Jim Kolbe, head of the Public Pension Reform Caucus. The caucus is comprised largely of ideological freshman Republicans and a few Democrats, such as Texas Representative Charles Stenholm, who cochairs the group. Kolbe notes that "very quietly, in the background" the GOP leadership is supporting the effort. "The speaker has been very helpful to us in our strategy," he says, but he adds that the pressure of election-year politics will take Social Security off the table for presidential discussion. "I would discourage the presidential candidates from talking about it. There's no sense in sending someone out to be slaughtered," he says.

Some groups supporting privatization are also worried about the image they are projecting. ICI was rocked by a *Wall Street Journal* article last February that noted that ICI and its member firms were virtually salivating at the prospect of "a pot of money worth trillions of dollars." That article "stopped everyone here in their tracks," says an ICI source. "We all said, 'Oh my God, we're too far out in front of it.'" Another ICI official, Kathy Rabon, says that the Institute will await the results of a study it has commissioned before going any further.

Almost everyone involved in the issue says that it will be at least 1997 before anything serious happens on Capitol Hill, and probably another several years before any changes are enacted into law. "It's way too early," says a veteran Capitol Hill watcher of Social Security who insisted on anonymity. "Somebody really serious has to get behind it first." He adds that the biggest problem in any proposal for privatization—and one acknowledged by proponents—is that by funneling money into private accounts, the federal government would siphon off cash needed to cover the deficit now. (Surpluses in the Social Security trust funds offset other government expenditures.) "We're going to tell the government to collect money and ship it off to Wells Fargo and Salomon Brothers? Where are you going to get the $60 billion from?" he asks. Clearly, taxes would have to be raised or spending cut even further than proposed under current deficit-reduction plans. That's one of the nasty little secrets that you won't see advertised in the coming privatization blitz.❑

SOCIAL SECURITY ON THE TABLE

BY JOSEPH F. QUINN AND OLIVIA S. MITCHELL

Suddenly, Social Security is no longer sacrosanct. Critics say the program is going bankrupt, about to be overwhelmed by the graying of the baby-boom generation. Many young workers have little confidence that Social Security will be there when they retire. This, in turn, has invited an unprecedented discussion of radical structural changes. For the first time, the official Social Security Advisory Council is offering three wide-ranging proposals for restructuring. All three envision investing some Social Security funds in private financial markets. Two of the three would create, for the first time, individual investment accounts financed with Social Security payroll charges.

This is a remarkable turnabout, substantively and politically. In 1983, the last time Social Security's finances were shored up, so strong was the support for the existing system that advocates of privatization on the Reagan White House staff were kept far from the deliberations. In the 1992 presidential election, all candidates repeated the quadrennial ritual of swearing fealty to America's most expensive and popular social program. But suddenly, the idea that a portion of one's Social Security taxes could fund an individual retirement account seems to combine political appeal for baby boomers with the prospect of stabilizing the system's finances and perhaps raising America's low rate of private saving as well.

In what follows, we set the stage for understanding why Social Security is suddenly in play, the dimensions of its financial problems, and the logic of the three reform proposals. What, after all, are the goals of the Social Security program? How well has it met them in the past and can it do so in the future? Is privatization desirable or necessary?

SOCIAL SECURITY IN PERSPECTIVE

Social Security, by design, is unlike any private insurance or retirement plan. It combines a nearly universal pension program with a highly redistributive income transfer program as well as an insurance policy offering disability and survivorship benefits. In contrast to nearly all private pension plans, it is also totally portable and fully indexed for inflation. Because of its inclusiveness, Social Security has been immensely popular since its inception.

In 1995, Social Security benefits exceeding $330 billion were distributed to more than 43 million recipients and their families under the old-age, survivors and disability programs (OASDI), accounting for over one-fifth of all federal government spending. The average benefit was about $7,700 per year. Payroll taxes totaling $365 billion were collected from 141 million workers, averaging about $2,600 per covered worker. Besides payroll taxes, 1995 Social Security revenues included $6 billion in receipts from part of the income taxation of Social Security benefits (the other part supports Medicare), and another $35 billion in interest earned on accumulated reserves. Currently, the agency's revenues exceed expenditures by about $60 billion per year.

> Change is necessary, but privatization might weaken the program's antipoverty role.

Although these reserves are large and growing (about $500 billion at the beginning of 1996), they currently represent less than 18 months of projected payouts. The system, in other words, is not pre-funded like a private annuity or pension plan, but rather relies on pay-as-you-go financing. Today's retirement benefits are paid mostly by today's workers' contributions, an arrangement that has functioned successfully for 60 years.

Measured against the goal of reducing old-age poverty, Social Security has been a notable success. It deliberately transfers resources from those with high lifetime earnings to those with low lifetime earnings. In 1996, each dollar of average (indexed) monthly earnings up to $437 translates into 90 cents of monthly retirement benefit. By contrast, each dollar of average monthly earnings between $437 and $2,635 adds only 32 cents, and each dollar of extra average monthly earnings beyond that adds only 15 cents. No private saving plan, annuity, or whole-life insurance policy has this redistributive, antipoverty feature.

Social Security has profoundly improved the economic well-being of older Americans. Nearly 30 percent of the elderly were poor as recently as 1967, more than twice the overall poverty rate. Social Security retirement benefits were raised substantially during the late 1960s and early 1970s, and poverty among the elderly plummeted. By 1974, the elderly poverty rate had fallen to half of its 1967 level, and it has been below the overall poverty rate since 1982. Social Security benefits provide over 80 percent of the income of the poorest 20 percent of elderly households (and nearly 80 percent for the next quintile), compared to only 20 percent of income for the richest elderly quintile.

Unfortunately this rosy record cannot continue without another round of tax increases, benefit cuts, or more fundamental changes. Precisely because it is so generous, at a time when people are living longer, Social Security is outstripping its means. And the fact that many people have come to expect generous public benefits may have discouraged private and pension savings as well.

Some analogize Social Security to a mandatory chain letter. As long as the economy was growing rapidly and the ratio of workers to retirees was large, the burden of financing ever more generous benefits could be passed along to the next generation. But as the population ages, the ratio of Social Security contributors to beneficiaries has declined, from 5 to 1 in 1960 to 3.3 to 1 today and projected to only about 2 to 1 by the year 2030. In an aging population with a pay-as-you-go retirement system, successive cohorts stand to receive a declining "rate of return" on their lifetime contributions.

The Vanishing Windfall

Past and current cohorts of retirees have received much more back from Social Security than they and their employers contributed, even allowing for a reasonable rate of return. For example, a man with average lifetime earnings who retired at age 65 in 1980 could expect to receive in Social Security retirement benefits 3.7 times more than his contributions would have generated, had they been invested in low-risk government securities. For a similar woman, the ratio was even higher—4.4 times—because of her longer life expectancy. Thanks to the progressive benefit formula, these ratios were even greater for lower-income people. But in the past, even high earners received benefits more than 3 times the value of contributions made on their behalf. The income redistribution within cohorts of retirees was dominated by the income redistribution between cohorts (from workers to retirees).

As the ratio of workers to beneficiaries continues to decline, so will the ratio of Social Security benefits received to taxes paid. For example, most workers reaching age 65 in 1995 can still expect more in lifetime Social Security benefits than an alternative low-risk investment (earning a 2 percent real interest rate) would have provided, according to Eugene Steuerle and Jon Bakija of the Urban Institute. Within ten years, however, many retirees (primarily higher earners) can expect to receive less than a 2 percent real rate of return on their Social Security contributions. Although one-earner couples and those in the bottom half of the earnings distribution will continue to do well, there will be many more recipients who may judge their mandatory Social Security contributions to be a poor investment relative to what they could have done on their own.

The maturing of the system has made its redistributive aspect explicit—and thus politically vulnerable. In the past, the intergenerational income transfers—from workers to retirees—were so generous that they were a better deal than conventional low-risk investments, even for the affluent. But as that windfall gradually disappears, Social Security ceases to be so attractive to higher income earners, and its political base begins to splinter along income lines.

> Social Security is newly vulnerable because it is no longer a good deal for all.

Social Security is also faulted for depressing the national saving rate, since it gives people a retirement check that is actually financed by transfers from the working population, rather than by interest on accumulated savings. The average 1996 Social Security recipient, with annual benefits of $7,700, would need a savings account (paying 5 percent interest) in excess of $150,000 to collect that much in interest. But no such savings account exists.

Ultimately, future retirees' consumption will depend on the productive capacity of the economy. Increasing the economy's future productive capacity, in turn, requires higher rates of saving and investment. Sponsors of more radical reform argue that if Social Security were turned into a partly or wholly funded system, it could become a net contributor to savings. But the more that Social Security is revised to emphasize nontraditional goals—higher individual investment returns and more freedom of choice—the more it loses its redistributive character.

Is There a Crisis?

Social Security is newly vulnerable because it is no longer a good deal for all, and because its projected revenues are inadequate to pay promised benefits. Around 2013, benefit payments will exceed payroll taxes. By about 2019, benefit payments will exceed all sources of OASDI revenues, including interest on the Trust Fund. After this date, less than 25 years from now, Social Security would have to sell Treasury securities to pay benefits and Trust Fund assets would begin to decline. If no further changes were made, Trust Fund reserves would be exhausted by about 2030, when baby boomers will be between 65 and 85 years old, and Social Security would be unable to pay the benefits retirees are due. Obviously, this will not occur, because Congress will act before then, either to raise taxes or change the program's benefit structure.

Over the next 75 years (the traditional accounting horizon for Social Security), the projected deficit will average about 2.2 percent of covered payroll per year. In other words, a payroll tax increase of 2.2 percentage points (i.e., from 6.2 to 7.3 percent for both employers and employees) could eliminate the current 75-year deficit. But solving the current 75-year deficit does not leave the system in true long-term balance, since the red ink rises again as the 75-year window moves forward.

When the system was founded, payroll taxes totaled 2 percent on the first $3,000 of annual earnings. By 1960, taxes had risen to 3 percent of the first $4,800, and by 1980, to 5.08 percent of the first $25,900 (excluding the Medicare tax begun in 1966). Since then, the OASDI tax rate has been increased several more times, reaching the current 12.4 percent in 1990, on covered earnings that are indexed annually and are currently capped at $62,700. Some of these increases were enacted to pay for expanded benefits, but for the most part they reflected a gradual decline in the ratio of workers to retirees.

In 1983, for the first time, some of the balancing occurred on the benefit side. Up to one-half of

Social Security benefits were subjected to federal income taxation for high-income recipients, and the normal retirement age of 65 was scheduled to rise slowly to 66 and then to 67, beginning with those turning 62 in the year 2000. The 1983 amendments returned the system to long-range (75-year) actuarial balance. But the system is back out of balance only 13 years later, both because long-range economic and demographic assumptions are now less favorable than in 1983, and because the 75-year accounting period moves forward every year, each time replacing a current surplus year with a future deficit year.

Radical Reform?

In 1994, President Clinton appointed a Social Security Advisory Council, as is done every four years. The committee, representing business (three members), labor (three), the self-employed (one), and the public (five), was chaired by University of Michigan economics professor Edward Gramlich. The council was directed to focus on the system's fiscal stability.

Reflecting the diverse views of its membership and the nation, the council has proposed three very different visions of Social Security reform. The first, termed the Maintenance of Benefits plan, is championed by Robert Ball, a former Social Security Commissioner, and five other members of the 13-person Advisory Council. It follows past tradition by raising revenues to meet current benefit obligations within the system's current structure. In a departure from the past, however, this plan also recommends investing up to 40 percent of Trust Fund reserves in private capital markets.

The second proposal, labeled the Individual Accounts plan, is favored by two members of the council, including Chairman Gramlich. This approach, similar to legislation proposed by Senators Bob Kerrey and Alan Simpson, trims benefits and adds revenues, and then adds a controversial new component—modest individual defined contribution accounts within Social Security, funded by an increase in the payroll charge, over which participants would have limited investment discretion.

The remaining five members, led by Sylvester Schieber, a business representative to the council, are championing a third option, called the Personal Security Account plan. This would replace the current Social Security system with a very different one, with flat benefits independent of earnings, and large mandatory personal retirement accounts, funded by a diversion of part of the current payroll tax, and held and managed by individuals.

Ball's Maintenance of Benefits plan maintains the currently legislated schedule of benefits, and finds new revenues needed to pay for them, from three sources: additional federal taxation of Social Security benefits and the diversion to the OASDI Trust Fund of the income tax receipts currently supporting Medicare; a 2 percentage point increase in the combined employer-employee payroll tax rate in the year 2050; and the allocation of up to 40 percent of Trust Fund reserves to the equity market, which, over the long run, has enjoyed a higher rate of return than government bonds. This proposal envisions no individual accounts and no benefit cuts beyond those already legislated.

The other two plans reduce future Social Security benefits. Gramlich's plan reduces benefits across the board, both by increasing the normal retirement age to age 67 by 2012 and then indexing it to changes in longevity, and more so for high-income workers through changes in the benefit formula. It then goes a significant step further by proposing an additional mandatory payroll charge—1.6 percent of covered earnings—to be dedicated to individual retirement accounts. Although the funds in these accounts would be held by Social Security, individuals would make their own investment choices from a limited set of broad options, such as bond funds and equity indexes.

At any time after age 62, retirees could claim an indexed annuity from Social Security, based on the total accumulations in the account; the funds could not be withdrawn in a lump sum. These individual accounts can be either be viewed as a modest beneficial addition to the current system, an encouragement to national saving, and a popular (and perhaps the only) way to raise the payroll tax—or as a major change in the redistributive philosophy of Social Security, one that might open the door to more significant changes later.

Schieber's option proposes more significant change in the system. Current earnings-related retirement benefits would be replaced by a low, flat-rate benefit, available to all workers with at least 35 years of contributions, regardless of their earnings histories. In today's dollars, the annual benefit would be about $400 per month, about two-thirds of the poverty level for an elderly indi-

vidual, and significantly less than today's average Social Security benefit. (Prorated flat benefits would be paid to those with 10 to 35 years of coverage.) The mandatory personal security accounts (PSAs) would be funded by payroll taxes of 5 percent of covered earnings, diverted from the current 12.4 percent payroll tax. (About 2.4 percentage points would be needed to finance continuing survivors and disability programs; the individual's half of the remaining 10 percent would be allocated to the PSA, and the employer's 5 percent to the flat benefit.)

The PSAs would be owned and invested by individual participants, with some regulation over the types of funds people could hold. Accounts could be claimed only after age 62, but then could be withdrawn as a lump sum or converted into an indexed annuity provided by the Social Security Administration. Under this third plan, the redistributive and individual equity components of the current system would be completely separated. Workers aged 55 or older (in 1998) would continue under the current system, and enjoy benefits as currently promised, while workers under age 30 would be covered entirely under the new system. Those between 30 and 55 would receive hybrid benefits reflecting their accrued rights under the current system at the time of transition and prorated flat benefits, as well as the proceeds of their personal security accounts. Even with the significant Social Security benefit cut proposed, diverting 5 percent of current payroll taxes leaves a significant unfunded liability. Therefore, additional revenues equal to about 1 percent of aggregate consumption (or about 1.5 percent of covered payroll) over the next 70 years would be required to cover the flat-rate benefits.

Despite their significant differences, all three proposals contain common elements worth noting. They all recommend the maintenance of a mandatory, universal, public social insurance program, with retirement, survivor, and disability benefits. They all maintain a progressive benefit structure, with net transfers toward those with low earnings histories. Each envisions additional taxation of Social Security benefits, with the eventual inclusion of all Social Security benefits (in excess of contributions already taxed) in taxable income. All recommend mandatory Social Security coverage of all new state and local government employees (as is true in some states already).

All three plans also favor increases in the normal retirement age beyond 65, and two of them then index the age to changes in longevity. None proposes means-testing benefits or indexing Social Security benefits at less than the cost of living. All three eliminate the current 75-year Social Security imbalance, and go beyond this to stabilize the ratio of the Trust Fund reserves to annual expenditures between 2050 and 2070, the last two decades of the current planning horizon. Finally, all three plans rely on private-sector investments to generate additional revenues for future retirees.

This is the last quadrennial Social Security Advisory Council. The Social Security Administration is now a quasi-independent agency, and it will be advised by a permanent advisory board. How will this last group's efforts be judged? Some believe that this Advisory Council's lack of consensus will doom its efforts to irrelevancy. But it may well turn out to be just the reverse. By offering three diverse proposals, the council has clarified profound political and philosophical differences about the future of Social Security, which will make for a more informed national debate.

PERILS OF PRIVATIZATION?

The two individual-account plans would create an explicitly double-deck system, with a lower deck focusing on income adequacy and income redistribution, and an upper deck generating benefits directly related to contributions. The lower deck is to be a defined benefit plan, while the upper deck is a defined contribution plan, like a 401 (k). The overall degree of redistribution in the system would depend on the generosity of the lower deck and on the returns earned on investments in the upper deck.

With privatization, Social Security's twin goals of income adequacy and individual equity would be separated and become more explicit and transparent. Over time, the commitment of more affluent taxpayers to the lower deck of the system might erode. The system as a whole might become far less redistributive.

Questions also remain about the effect of privatization on work, saving, and the distribution of income and risk. Privatization might increase the incentives to work at later ages and therefore delay retirement decisions, since one's own contributions would be more directly linked to personal pension accumulations and eventual benefits. Under the

current system, working longer and earning more often increases Social Security taxes more than it does eventual benefits. Given the increasing health and longevity of older Americans, this change would be a plus.

Would individuals save more or less under these privatization plans than they now do? Under the Individual Accounts and the Personal Savings Accounts plans, total tax collections would rise, directly financing an increase in saving. Of course, those already preparing for retirement on their own could offset this mandatory change by saving that much less in other ways. Under both of these plans, having more personal control over a sizable portion of their payroll taxes might make individuals feel more confident about the future. Some might respond to this by saving less. On the other hand, allowing people some control over their retirement portfolios might improve financial literacy, generate more serious thought about retirement planning, and thereby increase personal saving rates.

Many other important details remain to be clarified, particularly under the PSA approach. Could the accumulations be tapped for medical, home foreclosure, or other emergencies prior to retirement? Who bears the ultimate risk of poor investment returns, either because an individual chose badly or because the economy as a whole performed poorly? If lump-sum withdrawals are permitted at retirement, what happens to those who squander these savings and then find themselves in need? If annuities were offered but not required, how would we deal with the adverse selection problem, that those choosing the annuity option would tend to be that subset of the elderly with the longest life expectancy?

The concerns are both economic and political. Although equities, on average, have outperformed bonds in the postwar period, there is no guarantee that the future will repeat the past. Novice or poorly educated investors may fare poorly with increased choice and exposure to financial markets. Some critics worry that there will be inadequate public education and regulation to avoid swindles and scandals. Lump-sum allocations may induce some elderly to consume their assets too quickly and then outlive their means, which is less likely with the current mandatory indexed annuity provided by Social Security.

The political future is even more problematic. Under the current Social Security system, both the income adequacy and individual equity components are intertwined in one complex set of payroll tax and retirement benefit regulations. This single system has commanded broad political support. Under privatization, the antipoverty component would be explicitly separated from the rest of the system, where it could survive or wither, depending on the political climate ahead. Privatization itself would contribute to a less universalistic conception of the program. Critics of privatization fear that, once on its own, the minimum benefit could lose its political support, and the antipoverty gains of the past decades may be lost.

Sponsors of privatization argue that everyone will be better off, because of increased saving and the higher rates of return to be earned in private capital markets. But prospective retirees at the lower end of the income distribution had hoped to be the beneficiaries of a highly progressive Social Security benefit structure. Under the PSA plan, they would receive a smaller basic benefit, and despite the personal savings accounts, some will end up losers.

In the past, defenders of Social Security have relied on its universalism, bolstered by the fact that Social Security was a good financial deal for nearly everyone, despite its redistributive character. This was widely appealing as long as it lasted, but demographic changes are making the universalism harder to sustain.

It is inevitable that stabilizing the Social Security system will require some combination of tax increases and benefit delays or cuts, and all three plans acknowledge this. If the goal is simply to render the Social Security system solvent, the Ball plan does the trick, mainly by raising taxes. The Gramlich and the Schieber plans also stabilize the system's finances, by raising taxes and reducing benefits, but introduce a new philosophical twist—personal retirement accounts. These individual accounts are intriguing and should not be dismissed out of hand. They have the potential of increasing saving incentives, while giving people more control and responsibility for their own economic future. They may help rebuild young workers' confidence in what they believe to be an insolvent system by reducing the burden of the public promise in the future. Yet privatization, by explicitly separating income redistribution from earnings replacement, might significantly weaken Social Security's important antipoverty role.❑

JOHN SCHMITT

Cooked to Order

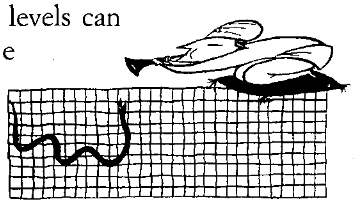
This is the story of how the fast food industry and its conservative allies sought to discredit two distinguished economists, and how the attack backfired. The economists in question committed the sin of conducting research that challenged the conventional view of the minimum wage. Their attackers may have committed rather cruder sins.

Almost every introductory economics textbook warns that raising the minimum wage will cost jobs. Assuming a standard model of the labor market, the reasoning is a straightforward variant of the law of supply and demand: If you raise workers' wages, you increase the price of labor—and firms will naturally hire fewer workers.

But in fact recent data provide little support for the theory. Over the last decade or so, as the after-inflation value of the minimum wage has fallen close to a 40-year low, most economic research has found no connection between minimum-wage increases and levels of employment.

In 1994, two well-respected Princeton economists, David Card and Alan Krueger, published an unusually convincing study. The Card-Krueger study, later included as a chapter in their book, *Myth and Measurement*, used the 1992 increase in New Jersey's minimum wage as a natural experiment. There had been no such increase in neighboring Pennsylvania. Standard theory would predict that New Jersey's 19 percent increase would cost jobs. But nothing of the sort happened.

Like several earlier studies in Texas, California, and the United Kingdom, the New Jersey data suggested that minimum-wage increases, in some circumstances, might actually increase employment. How? Labor markets are not exactly like product markets. Wage levels can influence how hard people work and how often they quit.



Pay people more, and they might work harder or display lower rates of turnover. So a higher minimum wage might raise productivity and lower recruiting and training expenses that would offset its costs.

For proponents of the minimum wage, the Card-Krueger study provided a novel argument in support. Traditional arguments for raising the minimum wage cited several benefits: increasing the incomes of the working poor, boosting the wage floor for all workers, stimulating demand in the economy, and rewarding work. If there were mild job losses, these could be made up in other ways. But now, evidently, raising the minimum wage (within limits) might even be a job-creation program.

FOOD-FIGHT ECONOMICS

The clash between theory and the real world set off nothing short of a brawl within the economics profession, especially because the Clinton administration cited the research as evidence to support its proposed increase in the federal minimum wage from $4.25 to $5.15 per hour. Opponents of the minimum wage, led by conservative economists and low-wage employers, responded with a no-holds-barred assault against the new research in such influential forums as the *Wall Street Journal*, the *Washington Post*, and *Business Week*.

No one took more public abuse from the anti-minimum-wage forces than Card and Krueger did. The Card-Krueger study drew attention both because of the stature of its authors and because of the meticulous care of their research. Both are prolific, highly respected economists with tenure in a top economics department. In his early thirties, Krueger took a leave from Princeton to serve as chief economist in Robert Reich's Labor Department. In 1995, the

American Economics Association (AEA) selected Card to receive the John Bates Clark medal, given every two years to the best economist under the age of 40.

The study itself was innovative and careful, and exemplified high professional standards in research design and implementation. Prior to the New Jersey study, the usual practice in minimum-wage research was to compare statistical variations in employment with variations in the real value of the minimum wage over time, an approach fraught with technical problems. While economists usually rely on government data collected for other purposes, Card and Krueger undertook their own major telephone survey of fast food restaurants in New Jersey and Pennsylvania.

Card and Krueger surveyed 331 fast food restaurants in New Jersey and 79 restaurants in eastern Pennsylvania, just before the April 1992 increase took effect. They then re-interviewed the same restaurants about eight months later, after the minimum wage rose in New Jersey. Using the Pennsylvania restaurants as a "control" group, Card and Krueger were able to estimate the employment impact of the minimum-wage hike by comparing employment changes in the two state samples. They found that employment actually grew more in New Jersey than in Pennsylvania, though the difference was not statistically significant using their best measure of the effects.

In early 1995 a vicious counterattack began, substantially underwritten by the fast food industry. In March the Employment Policies Institute, the leading employers group opposing the minimum wage, unveiled a counter-study. Richard Berman, a lobbyist for restaurant companies and the executive director of the Employment Policies Institute, wrote a piece for the *Wall Street Journal*'s editorial page. He claimed to possess evidence from the payroll records of 71 fast food restaurants in New Jersey and Pennsylvania that directly contradicted Card and Krueger's telephone survey data. He alleged that Card and Krueger's data were "grossly inaccurate" and "worse than flawed." The more accurate payroll data, he said, demonstrated that employment fell in New Jersey as a result of the minimum-wage increase. To support his position, Berman cited a March 1995 research paper by economists David Neumark of Michigan State University and William Wascher of the Federal Reserve Board, to whom the Employment Policies Institute had made the data available for analysis.

> The fast food industry and its conservative allies have served up a whopper.

Berman's allegations kicked off a public op-ed and private whispering campaign to undermine the credibility of the study and the reputations of Card and Krueger. The *Washington Post*, the *New York Times*, and other publications repeated, generally as fact, Berman's claims about his own data as well as his critique of Card and Krueger. *Business Week*'s conservative commentator Paul Craig Roberts hit the low point, with a column devoted almost entirely to savaging David Card, a mild-mannered Canadian who assiduously avoids making policy pronouncements on the minimum wage. Roberts questioned "the quality of the review process at *The American Economic Review* [where the study was first published] and the rigor of the selection process for the awarding of the John Bates Clark Medal." He charged that "political correctness seems to have crept into the inner sanctum of the AEA, discrediting its scholarly journal and debasing its top prize."

Of course, Berman's op-ed piece saw the light of day only because the standards for publishing "research" on the editorial page of the *Wall Street Journal* are considerably less stringent than at the *American Economic Review*. While Card and Krueger explain in excruciating detail how they identified and selected restaurants for inclusion in their sample—the heart of proper survey design—Berman to this day has not revealed how the Employment Policies Institute assembled its own, much smaller sample.

Correctly drawn samples accurately describe the broader population and follow patterns well studied by statisticians. Improper or biased sampling design, however, leads to distorted results. For example, if Berman surveyed only firms that did poorly after the minimum-wage increase, or if only firms

hurt by the wage hike took the time to respond, his results would be atypical and biased in favor of finding job losses.

Much about Berman's piece was pure polemic. Even Berman's statement that telephone surveys are less reliable than payroll records is not as plausible as it seems. The opposite would be true if workers were being paid under the table. And why should telephone respondents systematically overstate employment growth in New Jersey, while consistently understating it in Pennsylvania?

Ironically, the experts used by the fast food industry vindicated Card and Krueger.

Have It Your Way

Neumark and Wascher, the economists on whom Berman and the fast food industry relied, became uneasy. A careful reading of their paper revealed that the payroll data did not, in fact, differ much from Card and Krueger's. In one of two statistical tests, the Employment Policies Institute data showed no statistically significant loss of employment. In a second test, the job losses were only weakly significant by standard statistical criteria.

Neumark and Wascher clearly recognized that the fuzzy results obtained with the Employment Policies Institute's small sample of restaurants would not convince most economists. They also felt obliged to answer concerns that the Employment Policies Institute, which they acknowledged in a later version of their study had "a stake in the outcome of the minimum wage debate," may have provided them with data that were "falsified so as to undermine [Card and Krueger's] results." They set out to verify the Employment Policies Institute data and, separately, to gather their own payroll data from a larger group of restaurants.

Neumark and Wascher contacted those restaurants that supplied data to the Employment Policies Institute and checked the responses. They also conducted their own survey of restaurant payroll records in the same areas originally surveyed by Card and Krueger. In the end, Neumark and Wascher had a sample of 230 restaurants, 80 supplied by the Employment Policies Institute and 150 that they had gathered themselves. (Card and Krueger attempted to interview 473 restaurants and obtained responses from 410.)

When Neumark and Wascher analyzed the Employment Policies Institute sample and their own sample separately, a funny thing happened. The slightly expanded Employment Policies Institute sample indicated that the minimum wage did have a significant negative impact on employment in New Jersey (at least in one of the two statistical tests). But Neumark and Wascher's own data found no statistical difference in employment growth in the two states. Quite unintentionally, Neumark and Wascher had vindicated Card and Krueger.

Neumark and Wascher scrambled to explain their results. They maintained that the combined data provided the best basis for determining the employment effects. But their position was undermined by major differences in the two samples. The Employment Policies Institute restaurants showed much more uniform employment changes than those in the Neumark and Wascher sample. In fact, basic statistical tests demonstrated convincingly that the Neumark and Wascher sample showed so much more variation in employment changes across restaurants that it was highly unlikely that the two samples were chosen randomly from the same population of restaurants. Since the samples were either not random or not from the same population, Neumark and Wascher would be wrong to lump them together.

The irony is sweet. Neumark and Wascher, the two experts used by the fast food industry to impeach Card and Krueger, effectively ratified them. Neumark and Wascher's own original work also leaves one wondering about the Employment Policies Institute's data.

There are two ways to resolve that issue. The first is through a full account of how the Employment Policies Institute gathered its data. But neither the Institute nor Neumark and Wascher have so far provided such an account. The second is a direct analysis of the Employment Policies Institute and Neumark and Wascher samples by all parties in the debate. But the most

outrageous feature of the whole attack on the New Jersey study is that it has been waged entirely with a "secret data set." While Card and Krueger have shared their data with Neumark and Wascher and any other interested parties (it is posted on the Internet), the Employment Policies Institute and Neumark and Wascher have turned down all requests to make their data available to the public or even to Card and Krueger, despite Richard Berman's assurance in a *Washington Times* op-ed last summer that the data would be made public in July 1995.

Deep Fried

The fast food industry and their conservative allies have cooked up a whopper. But when the statistics settle, where does the debate on the employment effects of the minimum wage stand? Despite the attacks on Card and Krueger, or perhaps because of them, the economics profession has shown some signs of accepting the notion that moderate increases in the minimum wage may have little or no effect on employment. In October, 101 economists, including three Nobel laureates and four other past presidents of the American Economics Association, signed a letter calling for a 90 cent increase in the minimum wage. They stated their belief that a moderate increase would not "significantly jeopardiz[e] employment opportunities."

A panel discussion on the minimum wage at the most recent American Economics Association annual conference also showed progress. Even critics contended that a 10 percent minimum-wage increase would reduce employment only by, at most, about 3 percent—a more modest claim than in previous years. That might still seem like a lot, but think of it this way: If the minimum wage rose by 20 percent, 94 out of 100 minimum-wage workers would get a 20 percent pay increase, while 6 out of 100 would "lose their jobs." Since most minimum-wage jobs have a high turnover, it is unlikely that 6 out of 100 workers would be fired. More likely, employers would fail to fill a certain number of vacancies when the current employees left. With fewer vacancies, those looking for minimum-wage work would have to wait a little longer to find work—on average, 6 percent longer. But, once they found a minimum-wage job, it would pay 20 percent more. On an annual-income basis, minimum-wage workers would still come out 14 percent ahead.

Further, given that minimum-wage jobs also tend to be more flexible than most, employers could also compensate for higher wages by cutting hours worked by 6 percent. If this were the case, minimum-wage earners would work fewer hours (about an hour less on a 20-hour week) but make 20 percent more for each hour worked. They would work fewer hours, but their weekly pay would go up by 14 percent. (The most recent version of Neumark and Wascher's New Jersey study provides some evidence that firms behave in just this way.) This is the arithmetic that explains the overwhelming support that low-wage workers voice for regular and reasonable increases in the minimum wage.

A recent op-ed in the *Wall Street Journal* by conservative economist Robert Barro suggests a tactical retreat and a new set of arguments from an odd quarter. Barro concedes that "[w]hile the net negative effect on employment is small," minimum wages lead to "disturbing compositional changes." Citing other research by Neumark and Wascher, he argues that a higher minimum wage would induce "more advantaged," "non-black/non-Hispanic" teenagers to drop out of high school in order to work full time at the new, higher wage. These dropouts would presumably displace "more disadvantaged, notably black and Hispanic" workers who now hold those jobs.

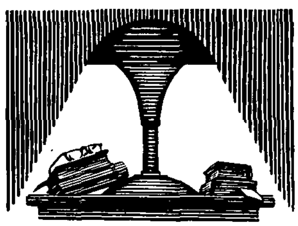
Note the sublime irony of this argument. Barro, who made his name in economics by asserting the pure rationality of individuals, is now claiming that advantaged white teenagers will volunteer to be branded "high school dropouts" for the rest of their working lives, in exchange for an extra 90 cents an hour. That hardly sounds rational.

So we have made some progress after all. Opponents of the minimum wage are having to resort to ever more far-fetched arguments. The honor of Professors Card and Krueger has been restored. Their attackers are on the defensive as statistical short-order cooks. And more than a few mainstream economists seem newly willing to entertain the concept that it is efficient for work to pay a living wage.❑

SIDNEY PERKOWITZ

Connecting with E.M. Forster

As my jetliner rears back, I look up from E.M. Forster's *Howards End* to gaze at the concrete sprawl of airport momentarily filling my window. The rows of parked airplanes and automobiles make a fitting backdrop: In the period when Forster wrote *Howards End*, 1908 to 1910, he was already decrying the filthy, cluttered underside of life in the motorized age. Although he was not alone in despising the stink of gasoline and the frantic pace of vehicles, Forster had an unusual grasp of how technological advance promised to change social interaction—often for the worse.



Forster also had an uncanny ability to predict exactly how technology would develop. At the century's beginning the telephone was new and the computer not even invented, yet Forster anticipated their modern evolution, perhaps most explicitly with his short story "The Machine Stops." Today the Internet and its related technologies are as ubiquitous as the automobile, within easy reach even as I fly five miles up. They raise all sorts of questions about relationships, community, and sexuality—the very same questions that Forster was contemplating in these two works.

For those who have never read *Howards End* (or missed Emma Thompson in the 1992 film version), it is a book about human connection. Margaret Schlegel—the older of the two cultivated, well-to-do sisters central to the story—becomes impassioned over the phrase "Only connect!" which carries two meanings. One is a call to unite the opposing elements within each person—what Margaret calls the beast and the monk, the prose and the passion—while the other is a call to put the greatest energy into personal relations. "Only connect!" is the book's epigraph, and whenever Forster speaks as narrator he emphasizes the value of personal relationships.

But Forster also realizes that the quality of personal connection depends on the quantity—often inversely. "The more people one knows the easier it becomes to replace them," Margaret sighs. "It's one of the curses of London." Too many connections, in other words, devalues each one in a kind of emotional inflation. For the Schlegel sisters, this is the constant danger of frenetic city life; for the characters of "The Machine Stops," it is the inevitable by-product of remote communication technology.

Written in 1909 partly as a rejoinder to H.G. Wells's glorification of science, "The Machine Stops" is set in the far future, when mankind has come to depend on a worldwide Machine for food and housing, communications and medical care. In return, humanity has abandoned the earth's surface for a life of isolation and immobility. Each person occupies a subterranean hexagonal cell where all bodily needs are met and where faith in the Machine is the chief spiritual prop. People rarely leave their rooms or meet face-to-face; instead they interact through a global web that is part of the Machine. Each cell contains a glowing blue "optic plate" and telephone apparatus, which carry image and sound among individuals and groups.

The story centers around Vashti, who believes in the Machine, and her grown son Kuno, who has serious doubts. Vashti, writes Forster, "knew several thousand people; in certain directions human intercourse had advanced enormously." Although clumsy public gatherings no longer occur, Vashti lectures about her specialty, "Music During the Australian Period,"

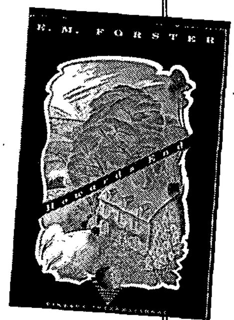
over the web, and her audience responds in the same way. Later she eats, talks to friends, and bathes, all within her room. She finally falls asleep there, but not before she kisses the new Bible, the Book of the Machine.

Kuno, in contrast, once made his way illegally to the surface, where he saw distant hills, grass and ferns, the sun and the night sky. The Machine dragged him back to its buried world, but he understands the difference between pseudo-experience and reality. "I see something like you in this plate," he tells his mother, "but I do not see you. I hear something like you through this telephone, but I do not hear you." Vashti also senses the lack. Gazing at her son's image in the plate, she thinks he looks sad but is unsure ". . . for the Machine did not transmit nuances of expression. It only gave a general idea . . . that was good enough for all practical purposes. . . ."

The drama in the story comes as the Machine inexplicably begins to decay, at first producing minor quirks. The symphonies Vashti plays through the Machine develop strange sounds that become worse each time she summons the music. That troubles her, but she comes to accept the noise as part of the composition. A friend's meditations are interrupted by a slight jarring sound, but the friend cannot decide whether that exists in her cell or in her head. More serious problems ensue with food, air, and illumination, but Vashti—like almost everybody else—clings to the conviction that the Machine will repair itself.

When the Machine's demise is nearly complete, Vashti's faith fails with it in a way that recalls Margaret Schlegel's speech about large numbers of people. For all the thousands Vashti "knows," she dies nearly alone in a mob of panicked strangers, frantically clawing upwards to the Earth's surface as the Machine finally stops. Her sole redemption comes from a moment of true human contact: She encounters Kuno to talk, touch, and kiss "not through the Machine" just before they perish with the rest of the masses. Forster leaves us amid that final failure of the race to "Only connect," sustained solely by the promise that the few who survive on the surface will rebuild, without the Machine.

The lesson of *Howards End*: too many connections devalues each one in a kind of emotional inflation.



Long after Forster imagined this dire scene, the technology of connectivity is here. The details differ slightly: Instead of sound and moving images, we exchange written messages and pictures over the Internet, which links computers globally through fiber-optic telephone lines. (I use "Internet" here as a generic term for the major computer webs—the Internet itself and its World Wide Web, and the commercial nets connected to it, such as America Online. These, by the way, can also carry real-time sight and sound, which will surely grow in use.) But the logic of network connectivity, whether one-to-one or one-to-many, remains unchanged, and so does the loss of personal dimensions. The images in Forster's world move and speak, but do not convey facial nuances. Except for the limited use of still images, our electronic messages omit physical attributes. Forster's imaginary system, and our real one, offer unprecedented breadth of connection—there are an estimated 10 to 30 million Internet users worldwide—but do not allow people to touch, or to read each other directly.

On the Internet, Forster's implied questions still beg for answers. Open a magazine or newspaper, and you're likely to find an article asking a simple question: Does the Internet break down isolation, or merely provide pale simulations of friendship and love that drive out the real things? At one extreme, a recent newspaper story announces "On-Line addiction: wire junkies are multiplying as more people withdraw into their private worlds," and describes Internet users who are "ensnared in a net of fiber optic lines . . . and loneliness." But some users tell a different story. Mary Furlong, the founder of a group called SeniorNet, says: "I see a lot of loneliness in the senior population and lack of mobility. . . . Going on-line

allows you to be intellectually mobile and be socially mobile"—exactly what the optic plates of Forster's world offer its confined inhabitants. There are even indications that the lack of physical presence can be advantageous. A London-based group finds the Internet to be a "nonprejudicial medium," especially valuable for children with conditions like cerebral palsy that affect speech.

In Forster's story, the rise of the Machine came from a belief in progress, which had "come to mean the progress of the Machine." Today, the relentless march of constantly updated computers and infrastructure sweeps us along to use the new technology because it is there, even when it conflicts with existing ways of life. A case in point is occurring in Italy, where a real estate consortium has spent more than $2 million for an entire village, Colletta di Castelbianco, founded in the thirteenth or fourteenth century and long since abandoned. The developers will turn its medieval walls and arches into a "telematic" village, creating apartments outfitted with the latest communications equipment including high-speed access to the Internet. The idea is that businessmen can operate on a global scale while enjoying the beauties of the rugged Ligurian region. Even the village cafes will be linked to the Internet, with facilities for video conferencing.

In a nation that values its cappuccino accompanied by enthusiastic conversation, the project evokes mixed reviews. Paolo Ceccarelli, an architect who studies the impact of computers, believes the Italian way of life is unlikely to bring forth many devoted Internet afficionados. He is depressed by the disconnection he sees in the Internet village. Echoing Forster's themes, he contemplates businessmen "parking their BMWs . . . climbing the stairs to their hermetically-sealed apartments and plugging in their portables in unison, all blissfully unaware of each other's presence."

It's true that even in Forster's vision, traces of emotion and relationship elude the grip of the Machine. "Human passions still blundered up and down," Forster wrote, and it is clear that Vashti and Kuno share a mother-son link, although Kuno has been raised in a public nursery. Sexual love, however, has changed radically. Sitting passive and isolated, people no longer touch each other, and their physical attractiveness has diminished. Vashti is described as a "swaddled lump of flesh . . . five feet high, with a face as white as a fungus." The Machine controls procreation, sending citizens traveling for the specific purpose of propagating the race. In this world where people do not kiss, where sex happens on assignment, Kuno rails that the Machine "has blurred every human relation and narrowed down love to a carnal act."

Human passions still blunder around the Internet, too, where people have fallen in love and gone on to form complete relationships or marry. But in an outcome that Forster did not consider, the Internet also adds the more or less artificial experiences of cybersex to the sexual repertoire. Sex over the 'net means incomplete involvement in different degrees, from exchanges among mutually responsive participants to the solitary viewing of pornography. Remote sex has its undeniable impact, and in a world dealing with the disease of AIDS, it may stand in for unsafe actual sex. But can it stand in emotionally for genuine sexual love? Responding to this concern, participants at a recent Vatican conference on "Computers and Feelings" declared that cybersex is "the end of love. It is empty loneliness." That judgment is based on a recognition that human experience is diminished as it is filtered through electronic channels.

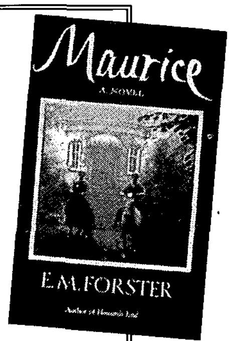
Forster went further. Fearing that more technology meant less humanity, he utterly rejected the technical achievements of his time. In 1908, after hearing of the first successful airplane flight over a kilometer-long circuit, he wrote in his journal, ". . . if I live to be old, I shall see the sky as pestilential as the roads. . . . Science . . . is enslaving [man] to machines. . . . Such a soul as mine will be crushed out." But we have come to learn that instead of producing a monolithically "bad" or "good" effect, a rich technology usually generates a balance sheet of benefits and costs—many of them unpredictable, because people use technology in unexpected ways. Thomas Mann once said, "A great truth is a truth whose opposite is also a great truth." A significant technology also embraces opposites; if some of its applications con-

strain human potential, others enhance it.

The Internet, in fact, helps people find kindred spirits. Forster did not foresee this development, but his story hints at it, for Vashti could either talk to a friend through the Machine or address an audience. Now many Internet users coalesce into groups that share concerns and emotional affinities. People with unusual beliefs or lifestyles, with secrets they dare not tell family and friends, seek each other out in thousands of news groups, list servers, and chat rooms. These cater to a variety of interests, problems, and ways of life, including a range of strong political views; divorce, grief, and loneliness; and a spectrum of sexuality, from heterosexual to homosexual, lesbian, and bisexual orientations, with variations. Within these groups, the private and the hidden can be revealed and validated, anonymously if desired.

Forster himself grappled with the partial secret of his homosexuality, which colored his life and his writing. His biographer, P. N. Furbank, concludes that Forster knew he was homosexual by the age of 21. But while a gay lifestyle was then acceptable in some quarters, Forster did not feel he could openly declare his sexuality, or act on it freely. The tension remained until he tried to release it in a way that would reaffirm him as a writer. After the success of *Howards End* in 1910, he feared his creativity had dried up. Yet in 1913, the idea for a novel about homosexual love came to him in a moment of revelation. That seemed to show a way out of his barren time, and he wrote *Maurice* enthusiastically and at great speed. When it was done in 1914, however, Forster saw that it could not appear "until my death or England's," and it remained unpublished until after he died.

How would Forster have approached an on-line chat group?



It is only a speculation, but a revealing one, to imagine how Forster would have fared with access to a like-minded group on a net, where he could have expressed what he had to suppress in the real world. After all, as a student at Cambridge he had been elected to the exclusive intellectual society called the "Apostles," where, among other topics, homosexuality was discussed in a spirit of free and rational inquiry, providing a sense of liberation that Forster later came to value greatly. On-line access would have created the opportunity to circulate *Maurice* to a larger but still select group that would accept its theme—a form of publication that would have brought even greater fulfillment.

Yet time on-line would have been ill used for Forster the writer. Aimless chat is the insidious seduction of the Internet; it can replace inward contemplation and real experience. In the decade after *Maurice*, Forster looked both inward and outward. His internal life became more unified as he came to terms with his self-doubts, and his sexuality. His external life developed as he worked for the Red Cross in Alexandria during the war, returned to England, and left again for his second visit to India. He deepened old relationships, and formed new ones, in all three places. All this must have been necessary, in ways hardly discernible at the time, before Forster could break free of his unproductive period to complete *A Passage to India* in 1924—a ripening that came only through the slow refining of life-as-lived into understanding.

Forster probably would have sensed this—just as he understood technology's potential to both isolate and overwhelm the individual. In the world of the Machine, each person could call or be called through his blue plate; but each could also touch an isolation switch to stop all interchange. While it is not always so simple, we can make individual choices about how and when to use technology. And in allowing his future humans their privacy between bouts of communication, Forster drew a fine metaphor for both aspects of "Only connect!": the joining of beast with monk carried out in the mind's solitude, the essential reaching out to others that breaks isolation—and the combination of the two, through the internal distillation of felt experience.❑

DAVID GREENBERG

Goldwater's Glitter

Senator Barry Goldwater strode to the convention podium. *"Extremism in the defense of liberty is no vice!"* he declared, sending the assembled delegates into a frenzy. The scene was not San Francisco, 1964. This was Dallas, 1984. "Members of the convention, we have a leader, a real leader, a great commander-in-chief," Goldwater continued. "President Ronald Reagan. And in your hearts you know he's right."

Goldwater was returning a favor to Reagan, who had delivered a key television endorsement 20 years earlier. Yet he was also burnishing his own mythic status. By repeating his patented slogans, Goldwater was drawing a link from his own quixotic crusade to his successor's triumphant coronation—and, in so doing, claiming for himself a belated public vindication.

That Goldwater was a seminal figure is beyond dispute. Pat Buchanan calls him "our John the Baptist"; Bob Dole paid a visit to him before the Arizona primary. In the Goldwater tradition, today's conservative leaders outbid each other in denouncing government and embracing the interests of business, promising "revolutionary" plans to overhaul government. Yet it is one thing to appreciate Goldwater's place in political history, quite

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WORK DISCUSSED IN THIS ESSAY

Robert Alan Goldberg, *Barry Goldwater* (Yale University Press, 1995).

another to take his lasting influence as validation of his worldview. Goldwater was certainly the catalyst of the modern Republican Party's hard right turn that culminated in Newt Gingrich's speakership. But amid the new celebration of Goldwater it's almost forgotten that he lost disastrously in his 1964 presidential bid—one of the worst defeats in years.

This sort of excessive revisionism—taking Goldwater's influence on the GOP as broader vindication of his governing philosophy—mars Robert Alan Goldberg's otherwise rigorous and eloquent book, the first definitive biography of the Arizona senator. In his worthy effort to illustrate Goldwater's importance, the author frequently glamorizes his subject, softening the rough edges and blaming either Lyndon Johnson or the press for distorting Goldwater's record. This lapse in facing up to the senator's incontrovertible extremism diminishes Goldberg's credibility as an impartial historian and obscures the real lesson to be learned from the Goldwater story: that economic conservatism is not the answer to public anxiety today any more than it was 30 years ago, particularly when it is yoked to a moralism Goldwater himself rejected.

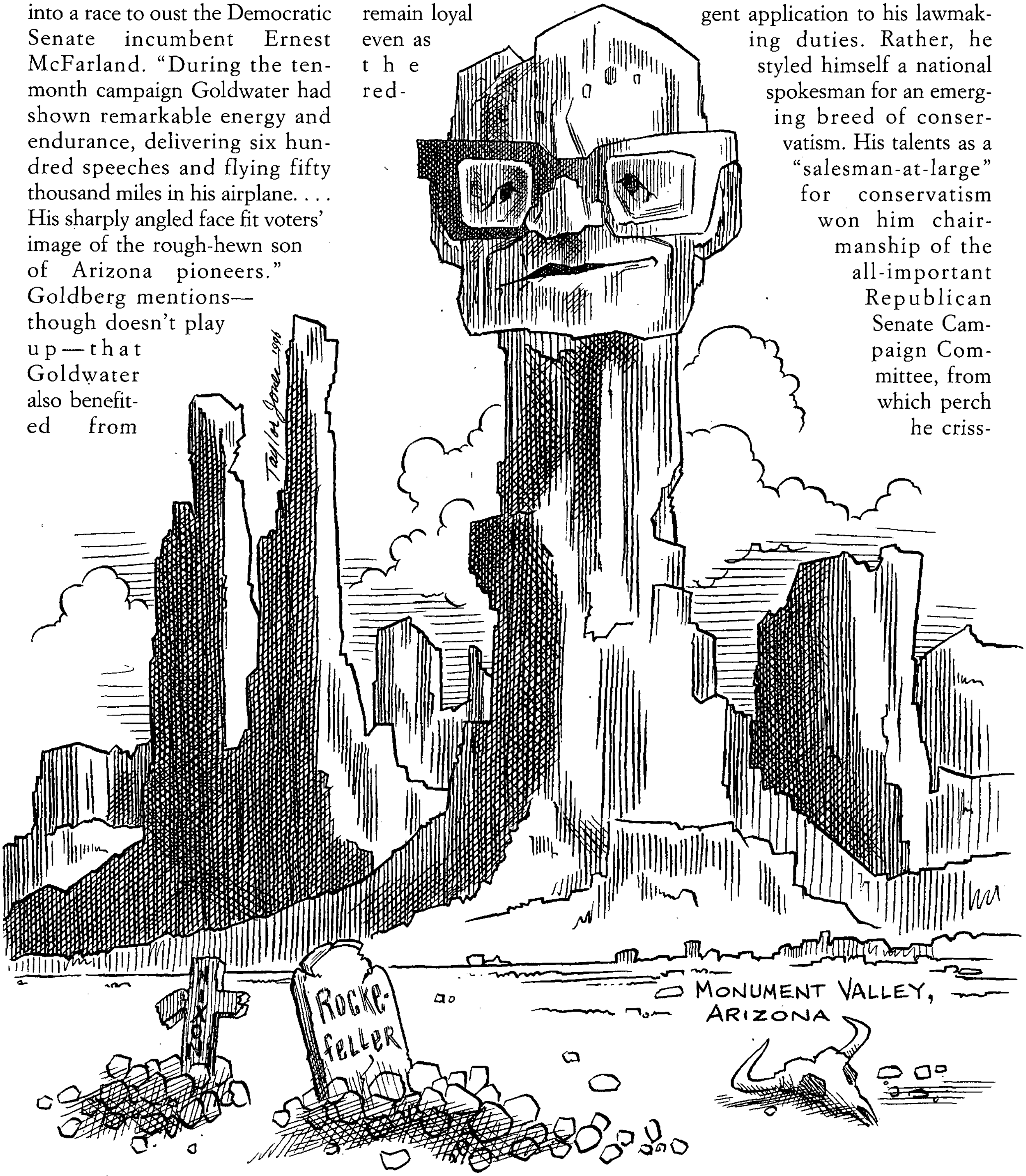
In Robert Goldberg's rendering, Barry Goldwater, born January 1, 1909 in Phoenix, Arizona, was a true child of the West, a frontier businessman with a love of open air and open markets. It will forever seem incongruous, then, even comic, that this archetypal Sunbelt icon traced his family roots to the Polish shtetl of Konin. Goldberg shows how Michel Goldwasser, Barry's paternal grandfather, like other nineteenth-century Jewish immigrants, rose from poverty to affluence by cultivating a business in the fertile American economy of the time. Barry, a confirmed Christian, inherited not religious belief but an appreciation of the bounty of unrestrained commerce. Michel began working at a general store in La Paz, Arizona, which blossomed in the desert as prospectors and settlers pushed into the West. Over the next two generations it expanded into the Goldwater family fortune that allowed Barry to grow up, in his own words, as "a spoiled, well-off kid."

In the 1940s, the Republican Party in Arizona was still small enough, and the Goldwater name prominent enough, that a career in politics naturally beckoned. As hostility toward the New Deal spread throughout the business community, Goldwater began lacing his speeches to civic groups and even newspaper advertisements for the department store with dire predictions about the "dark clouds of social-

ism forming on the horizon."

Reverentially, Goldberg describes how Goldwater jumped from the Phoenix City Council into a race to oust the Democratic Senate incumbent Ernest McFarland. "During the ten-month campaign Goldwater had shown remarkable energy and endurance, delivering six hundred speeches and flying fifty thousand miles in his airplane. . . . His sharply angled face fit voters' image of the rough-hewn son of Arizona pioneers." Goldberg mentions—though doesn't play up—that Goldwater also benefited from Eisenhower's coattails and assaults on McFarland by Senator Joe McCarthy, to whom Goldwater would remain loyal even as the red-baiting senator later suffered censure from his colleagues.

In the Senate, Goldwater shone, though not through diligent application to his lawmaking duties. Rather, he styled himself a national spokesman for an emerging breed of conservatism. His talents as a "salesman-at-large" for conservatism won him chairmanship of the all-important Republican Senate Campaign Committee, from which perch he criss-



crossed the country, fulminating against the communist menace and nurturing profitable political contacts. "Handsome and vigorous, candid and quotable," Goldberg swoons, "he personified for easterners the mystique of the West."

Increasingly, Goldwater warred with Dwight Eisenhower, condemning Ike's "Modern Republicanism" as watered-down New Dealism and reproaching what he considered a timid foreign policy. Goldwater fell in with a crowd of conservative activists, including *National Review* editor William F. Buckley, operative Clifton White, John Birch Society founder Robert Welch (later excommunicated), and General Electric Theater host Ronald Reagan; Goldberg deftly paints Goldwater not as an all-powerful shaper of events but as the most popular spokesman for a movement that was rapidly acquiring intellectual, organizational, and financial firepower. When he accepted his party's presidential nomination in 1964, it was a victory not for a man but for a movement.

Since the 1964 campaign marks the high point of Goldwater's career, it's a shame that when he gets to it, Goldberg, like the candidate himself, stumbles badly. Until this point in the narrative, Goldberg does a creditable job of explaining Goldwater's rise and significance. But his account of the Republican convention at San Francisco's Cow Palace—where Goldwater coined his well-known credo, "Extremism in the defense of liberty is no vice. . . . Moderation in the pursuit of justice is no virtue"—gets bogged down in nostalgia.

Goldberg glamorizes the event as "the Woodstock of American conservatism," a fleeting moment of camaraderie and glory for conservatives. Yet just as liberals have romanticized Woodstock, so Goldberg views the convention and the campaign through the rose-colored glasses of his own youthful passions. As the biographer recalls in his preface, his loyalties to Goldwater stem from boyhood. He learned his politics from Goldwater's *Conscience of a Conservative*; he was one of two students in his high school to campaign for the senator in 1964—the other being his brother. Though Goldberg has since moved leftward politically, the entire account of the campaign reads like a settling of old scores, as if the historian were reliving the feelings of injustice he must have felt as a child seeing Johnson pillory his hero.

Goldberg relentlessly blames Goldwater's failure on Johnson's dirty campaigning and on the press's distortions of Goldwater's record. Goldberg condemns as underhanded the famous "Daisy" TV ad, which, without even mentioning Goldwater, played to fears about his potential nuclear trigger-happiness. Goldberg criticizes another ad in which an anonymous pair of hands ripped up a Social Security card—hands that some viewers, Goldberg notes, remembered with certainty as Goldwater's own. The historian also harps on the media for reveling in the portrait of Goldwater as an extremist, dwelling on how reporters seized on Goldwater's trip to Germany to insinuate Nazi associations (Goldberg, using his own Nazi equation, labels this portrayal "the big lie").

But Johnson's campaign, while hard-hitting, hardly merits Goldberg's assessment of it as "defamation . . . unprecedented in American political history." Goldwater was extreme. As Goldberg himself notes, the candidate's "shoot-from-the-hip recklessness"—stray comments about resuming nuclear testing, nuking Vietnam, and making Social Security "voluntary"—haunted him at every turn. Aware that his bluntness was ill serving him, Goldwater even tried to revise his "extremism" remark. What he meant to say, he backpedaled, was that "wholehearted devotion to liberty is unassailable and . . . half-hearted devotion to justice is indefensible." It didn't wash. Much like Gingrich and the House Republicans today, he squandered public goodwill with his scattershot and often scatter-brained pronouncements. Leaders of his own party fretted about his convention speech. "Strident, divisive," said Richard Nixon. "Abrasive," offered Clif White. "More defiant than conciliatory, more militant than magnanimous," echoed Congressman Walter Judd. Besides, Goldwater himself furnished the Democrats with ample ammunition for their fusillade of ridicule. It may have been Democrats who labeled Goldwater, "The Fascist Gun in the West," but it was Goldwater who told Stewart Alsop, "You know, I haven't got a really first-class brain." Voters concluded that the unvarnished candor and impulsiveness that lent Goldwater charm as a senator didn't befit the

occupant of the Oval Office.

Like political revolutions, scholarly revolutions frequently succumb, ill-advisedly, to the intoxicating temptation of overthrowing old systems completely; where topical surgery is called for they undertake radical transplants. Commentators now commonly look back on the smug dismissals of contemporary American conservatism, such as Lionel Trilling's famous characterization of it as nothing more than a set of "irritable mental gestures which seek to resemble ideas," with chagrin. It's about time liberals began taking conservatism seriously as an intellectual force, and Goldberg deserves kudos for doing so. But historians shouldn't altogether disregard what Richard Hofstadter called the "paranoid style" surrounding the Goldwater movement.

The Republicans in Congress, at least, seem not to have learned why Americans turned away from the extremism of the right. Like Goldwater, the new crop of Republican leadership sees the interests of business as essential to the nation's welfare, adopting an agenda at best irrelevant and at worst antagonistic to the public. Men such as John Boehner of Ohio and Tom DeLay of Texas come from the world of business and act as if the public hired them to represent the petroleum, pharmaceutical, insurance, and banking industries. The freshman class has already set records for accepting donations from special interests. They shun compromise, priding themselves, as in the budget negotiations, on a kamikaze-style absolutism.

The voters who elected this Congress may have bought the idea of a balanced budget and lower taxes; they certainly didn't ratify an agenda literally drafted by corporate lobbyists. Even as *Time* named Gingrich Man of the Year, its pollsters showed 63 percent of surveyed Americans think him "too extreme in his views." Democrats are catching on. Oregon Democrat Ron Wyden eked out a victory in his bid for Bob Packwood's vacated Senate seat by painting his opponent as "going to extremes." As is often the case, Massachusetts Congressman Barney Frank put it best. "In this election," Frank recently told the *New York Times*, "people on the liberal side are going to mobilize in ways they haven't probably since Barry Goldwater. And as a matter of fact, people here are looking back nostalgically on Goldwater as a relatively benign figure compared to this group."

After his re-election to the Senate in 1968, Goldwater seemed to mellow. His main accomplishment of his first term back in office was to help convince Richard Nixon to resign. He had stood by the president until the bitter, embarrassing end of Watergate, when the transcripts revealed the president as a bald-faced liar. "He had lied to the people, had lied to his friends in the Congress, including me," Goldwater said. "That was the last straw. . . . I was wrong in protecting him as long as I did." Feelings of personal betrayal ran deep. When Nixon died, politicians left and right attended the disgraced president's funeral; President Clinton delivered a eulogy. The unsentimental Goldwater boycotted the whole affair.

The break with Nixon ushered in the final phase of Goldwater's career, marked most notably by his drift away from the New Right. In 1976 Goldwater endorsed Gerald Ford for president over the right's darling, Ronald Reagan. Moved, in Goldberg's view, by fealty to the incumbent, Goldwater irreparably damaged his relationship with Reagan and drew fire from William Buckley and other right-wing opinion leaders. In subsequent years, Goldwater began attacking the Religious Right and its efforts to impose its Christian morality on the nation. When Reagan named Goldwater's protégé Sandra Day O'Connor to the Supreme Court in 1981, Jerry Falwell balked at her insufficiently rabid anti-abortion credentials. "Every good Christian ought to kick Falwell right in the ass," Goldwater replied. "I get damn tired of those political preachers telling me what to believe in and do." In 1992, he presciently warned the GOP that "the convention will go down in a shambles, as well as the election" if the party emphasized an uncompromising anti-abortion stand. On the service of homosexuals in the armed forces, he lambasted Clinton's wishy-washy "don't ask, don't tell" policy, arguing, "You don't have to be 'straight' to fight and die for your country. You just have to shoot straight." When the Religious Right took over the Arizona Republican Party, Goldwater blasted the "bunch of kooks" and endorsed a Democrat for Congress over the evangelical preacher the

Republicans had nominated, helping the Democrat to win.

When Bob Dole made his recent pilgrimage to Paradise Valley, he seemed momentarily struck by the irony of his campaign to brand Pat Buchanan as, of all things, an extremist. "Barry and I—we've sort of become the liberals," he sheepishly noted. "Can you imagine that?" the aging Goldwater chimed in. As a biographer, Goldberg has responsibility for making sense of what might seem like radical change in his subject's politics. Unfortunately, he can't quite fit together the pieces of this puzzle, in part because he fails to explore fully Goldwater's personal life. Goldwater's first wife, Peggy, was active her whole life in Planned Parenthood; his daughter, Joanne, had an illegal abortion at age 19 in 1955. A Goldwater grandson and grandniece were openly gay. Goldberg cites these facts but doesn't mine them for psychological import.

In a sense, Goldwater's social liberalism may not be that anomalous. All along, his was the conservatism of the freedom-loving frontier. As the New Right captured the Republican Party, purging Rockefeller Republicans, their ascendance brought out the libertarian streak of those who couldn't stomach the new public morality. If Goldwater wanted to shore up his position as father of contemporary conservatism, rather than letting others define his legacy for him, he had to brand it in the public mind that he didn't regard the Jerry Falwells and Pat Robertsons as his heirs. "They are not the Republicans of the same cast that I and many, many others are."

As Robert Goldberg notes, Goldwater certainly never converted to liberalism. He remained opposed to gun control and to women working instead of raising children. His most enduring legacy has been his vociferous criticism of federal social programs; his powerful antigovernment message resonates now more loudly than ever. But the moral certainty of the far right also came to alarm him deeply, fundamentally contradicting not only his libertarian sensibilities (which, too, increasing numbers of Americans seem to share) but the basic laws of human nature. If we really want to derive some lessons from the career of Barry Goldwater, we should consider that as he aged, he came to see that extremism in any pursuit was no virtue, and moderation no vice.❑

CONTROVERSY

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capital comes at too high a cost.

Originally, the concept of social capital was nothing more than an elegant term to call attention to the possible individual and family benefits of sociability. That usage is entirely compatible with a nuanced understanding of the pros and cons of groups and communities. Unfortunately, that understanding is absent from the spate of recent articles that seek to popularize the idea and make it a basis of policy. Stretching the concept does not only lead to circular or banal statements, harmless in their own way, but to policy recommendations that can be dangerous.

For instance, the call for higher social capital as a solution to the problems of the inner city misdiagnoses the problem and can lead to both a waste of resources and new frustrations. It is not the lack of social capital, but the lack of objective economic resources—beginning with decent jobs—that underlies the plight of impoverished urban groups. Even if strengthened social networks and community participation could help overcome the traumas of poverty, no one knows how to bring about these results. Undoubtedly, individuals and communities can benefit greatly from social participation and mutual trust, but the outcomes will vary depending on what resources are obtained, who is excluded from them, and what is demanded in exchange. As the examples of African American construction contractors in New York show, solidarity among some groups can create impassable barriers for others that only deliberate government intervention can overcome. As the example of Evangelical converts in the Andes suggest, the benefits of community may come at too high a cost in terms of human freedom or the suppression of the individual entrepreneurial spirit. Sociability, in every sense, cuts both ways.❑

Root for the Rootless

Sports provide such wonderful role models for children. Forget the heroes going to jail for drug possession, tax evasion, and rape. All around the country, we have owners of teams instructing America's youth in the art of public extortion. Build us a new stadium, they say, or we're leaving. Root for us, the unrooted. In New York, George Steinbrenner wants a new stadium for the Yankees, and Mayor Giuliani says he shall have one.

But that's nothing compared to what's going in South Florida. A decade ago Miami put the finishing touches on a publicly financed arena that could host basketball's Heat and hockey's Panthers. The state-of-the-art facility gets raves from fans, but the team owners grumble about the arena's lack of high-priced luxury skyboxes—a measly 18. So local officials now propose to build not one but two new arenas (one per team) that will sit as close as 35 miles apart. Soon we shall have so many stadiums in this country that promoters will try to bring back gladiators to keep them filled.

Of course, if sports teams can extort public money, why shouldn't other institutions try it? Imagine: "The New York Public Library today said it would move to Wisconsin unless the city comes up with funds for ten new branch facilities. . . ." We could have bidding wars for orchestras, museums, colleges. Whole neighborhoods could threaten to transplant themselves in a great cacophony of feints, threats, and counteroffers. Civic life would just be imitating business, and what could be wrong with that?

Murder He Wrote

As federal agents search the cabin of the suspected unabomber, many people are wondering what other writing they will find there beside the original typescript of the unabomber's manifesto. Will they turn up a first draft of *Primary Colors*? What about the script for *Waterworld*? Or maybe an autobiography, *Thoreau with an Attitude*, with an appendix on how to create bombs out of recycled ingredients?

It is really a shame the reclusive Theodore Kaczynski didn't have a satisfying career as a writer and academic. He might not be in jail today, suspected of sending bombs by mail, if only he had been better at hurling insults at his colleagues in the Berkeley math department. Clearly, his graduate training must be partly at fault.

Having trouble distinguishing satire from political reality? Send the items you can't identify for sure to "How Low Can You Go?" The American Prospect, P.O. Box 383080, Cambridge, MA, 02238.

Smoking Gun

Until Kenneth Starr insisted on continuing to defend tobacco companies while serving as independent prosecutor, it had never occurred to us that the independent prosecutor statute was an instance of privatization. And what a wonderful example it is: The same tobacco companies that now fear government regulation and lawsuits have their own lawyer holding a gun to the president. It makes for a more even fight. And Mr. Starr certainly has a point. He is supposed to become knowledgeable about conspiracies, and by defending the tobacco industry he engages in what social scientists call "participant observation."

—*P.S.*

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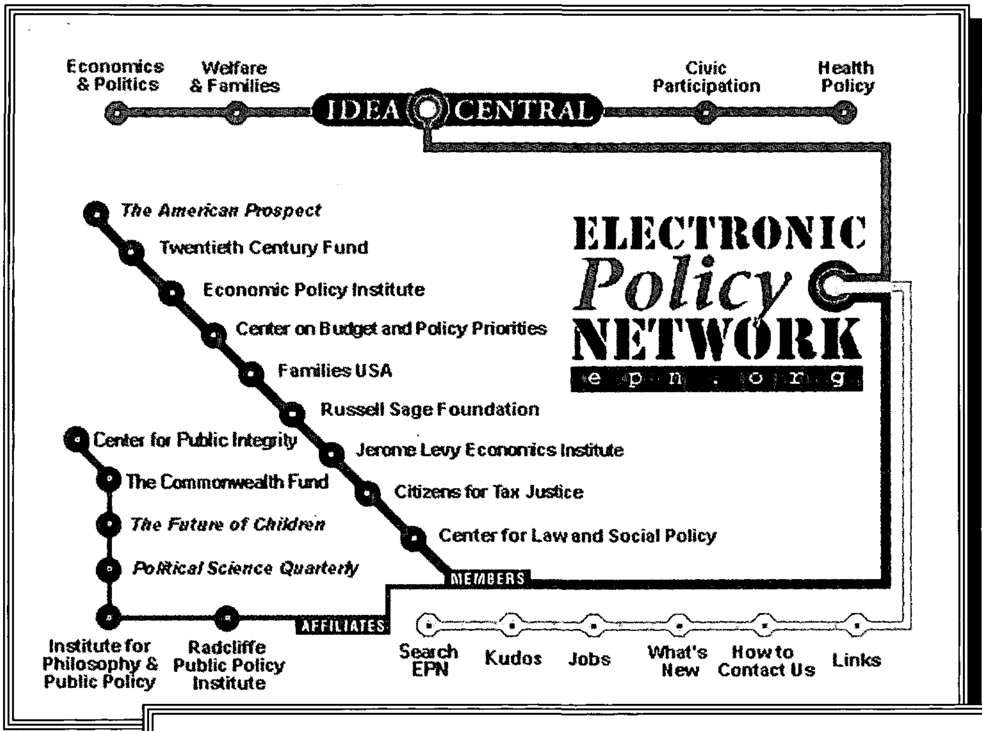

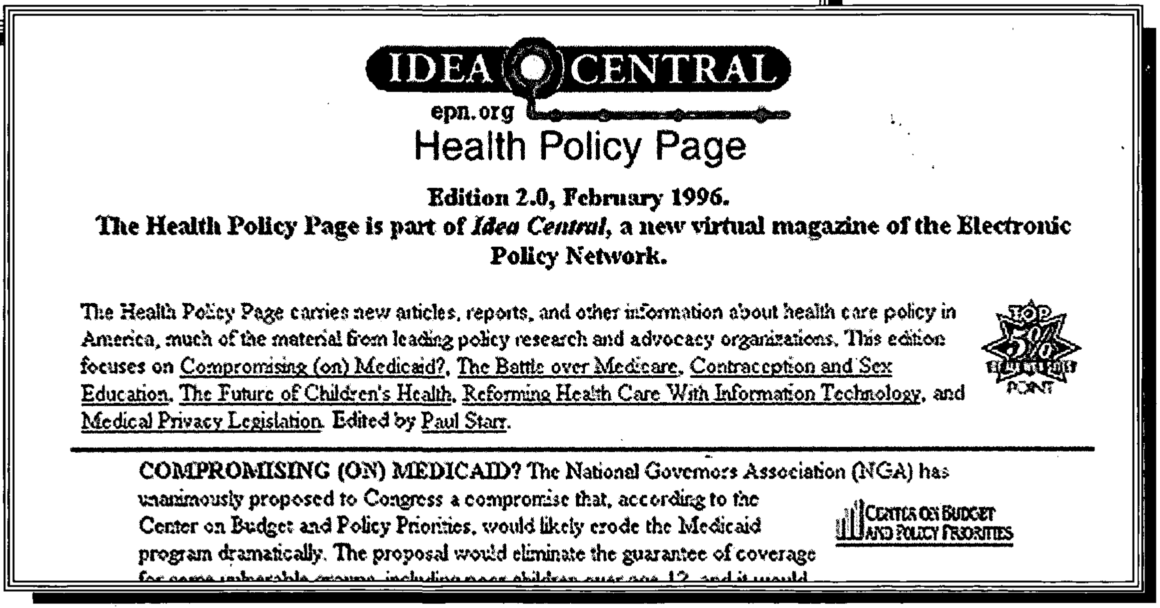

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Health Policy Page

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The Health Policy Page carries new articles, reports, and other information about health care policy in America, much of the material from leading policy research and advocacy organizations. This edition focuses on Compromising (on) Medicaid?, The Battle over Medicare, Contraception and Sex Education, The Future of Children's Health, Reforming Health Care With Information Technology, and Medical Privacy Legislation. Edited by Paul Starr.

TOP 5% POINT

COMPROMISING (ON) MEDICAID? The National Governors Association (NGA) has unanimously proposed to Congress a compromise that, according to the Center on Budget and Policy Priorities, would likely erode the Medicaid program dramatically. The proposal would eliminate the guarantee of coverage

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